

Public Schools of the City of Muskegon

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

Public Schools of the City of Muskegon

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The Public Schools of the City of Muskegon Management Discussion and Analysis For the Fiscal Year Ended June 30, 2006

The discussion and analysis of the Public Schools of the City of Muskegon's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to provide, in layman's terms, a look at past performance and current financial position of the District. Readers must also review the financial statements, and notes to the financial statements to enhance their understanding of the District's financial performance.

The Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements adopted this reporting model for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the Management's Discussion and Analysis (MD&A).

Overview of the Financial Statements

This annual report consists of five parts: (1) management's discussion and analysis (this section), (2) independent auditors' report, (3) the basic financial statements, (4) required supplementary information and (5) statistical section. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

District-wide Financial Statements

The district-wide financial statements were implemented for fiscal year 2003. These statements are full accrual basis statements that provide information about the District's *overall* financial status. They are used to help determine whether or not the District is better off, or worse off, as the result of the year's activities. The *Statement of Net Assets* reports all of the District's assets and liabilities, both short-term and long-term, whether they are "currently available" or not. Capital assets and long-term obligations of the District are reported in this statement. All of the current year's revenues and expenses are accounted for in the *Statement of Activities*, regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in net assets are an indicator of whether the District's financial position is improving or deteriorating.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base, the quality of the education provided, and the condition of the District's buildings.

In district-wide statements, the District's activities are classified as *governmental activities*. This includes most of the District's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes and state aid finances most of these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the District, while reporting the District's operations in more detail than the district-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent that they normally expect to be paid with current financial resources.

Fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the *General Fund*. Additional activities are reported in their relevant funds including: *Special Revenue Funds* for Food Service, Athletic, Central Special Education, and Muskegon Museum of Art activities, *Debt Service Funds*, *Capital Project Funds*, and *Fiduciary Funds* for student group and trust activities.

The Public Schools of the City of Muskegon

Management Discussion and Analysis—Continued

For the Fiscal Year Ended June 30, 2006

In fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Financial Analysis of the District as a Whole

The net assets of the District at June 30, 2006 amounted to \$31 million. This chart shows a condensed breakdown of the net assets and compares them to the June 30, 2005 net assets, which amounted to \$30 million.

<u>Comparative Condensed Statement of Net Assets</u>		
	<u>2004-05</u>	<u>2005-06</u>
Current Assets	\$ 32,510,979	\$ 35,287,287
Capital Assets	53,270,517	52,115,700
Other Non-Current Assets	<u>2,644,480</u>	<u>2,704,703</u>
Total Assets	\$ <u>88,425,976</u>	\$ <u>90,107,690</u>
Current Liabilities	\$ 20,027,721	\$ 23,171,659
Non-Current Liabilities	<u>38,401,100</u>	<u>35,674,427</u>
Total Liabilities	\$ <u>58,428,821</u>	\$ <u>58,846,086</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$ 20,100,198	\$ 21,399,347
Restricted for:		
Debt Service	\$ 732,555	\$ 1,292,183
Permanent Funds	7,553,664	7,758,566
Unrestricted	<u>1,610,739</u>	<u>811,508</u>
Total Net Assets	\$ <u>29,997,156</u>	\$ <u>31,261,604</u>

The largest portion of the District's net assets (67% 2005 vs. 68% 2006) reflects investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Additional restrictions on permanent trust funds apply to assets restricted by bequest terms and debt service to liquidate bonds and interest.

The remaining net assets represent resources that are unrestricted as to how they may be used.

The net assets of the District increased by \$1,264,449 during the 2005-06 year. The following chart shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the District's annual activity. The cost of the District's governmental activities for the year was \$71.4 million. However, the amount that the District's taxpayers ultimately financed for these activities was only \$45.47 million because \$2.43 million of the cost was paid for by those who benefited from the programs, and \$23.5 million was paid for by other governments and organizations who subsidized certain programs with grants and contributions. The remaining "public benefit" portion was paid for with property taxes, state pupil foundation aid, investment earnings, and other miscellaneous revenues.

**The Public Schools of the City of Muskegon
Management Discussion and Analysis—Continued
For the Fiscal Year Ended June 30, 2006**

<u>Comparative Statement of Net Assets from Operating Results – Governmental Activities</u>			
	<u>2004-05</u>		<u>2005-06</u>
Revenues			
Program Revenues			
Charges for services	\$ 2,558,992	\$	2,430,008
Operating grants and contributions	24,902,673		23,500,582
General revenues			
Property taxes	8,887,088		10,335,316
State formula aid and unrestricted grants	34,997,763		35,006,758
Other	<u>1,114,629</u>		<u>1,392,569</u>
Total revenues	\$ 72,461,145	\$	72,665,233
Expenses			
Instruction	\$ 34,338,983	\$	35,390,635
Support services	27,036,451		27,731,541
Community services	3,071,000		2,729,849
Food services	2,172,204		2,285,570
Athletics	599,816		642,464
Interest on long term debt	1,618,008		1,374,655
Unallocated depreciation and amortization	<u>1,265,384</u>		<u>1,246,071</u>
Total Expenses	<u>70,101,846</u>		<u>71,400,785</u>
Increase (decrease) in net assets	2,359,299		1,264,448
 Net assets at beginning of year	 27,637,857		 29,997,156
Net assets at end of year	\$ <u>29,997,156</u>	\$	<u>31,261,604</u>

A substantial portion (57%) of the District's revenues is received from the State of Michigan. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. This chart depicts the breakdown of the sources of revenue for the District.

<u>Revenue and Other Financing by Source</u>					
	<u>2004-05</u>		<u>2005-06</u>		
State	\$ 42,092,668	59%	\$ 41,989,519	57%	
Local	11,100,833	16%	14,199,799	19%	
Federal	12,535,851	18%	12,868,095	18%	
Net other financing sources	<u>4,928,062</u>	<u>7%</u>	<u>4,296,126</u>	<u>6%</u>	
	\$ <u>70,657,414</u>	<u>100%</u>	\$ <u>73,353,539</u>	<u>100%</u>	

**The Public Schools of the City of Muskegon
Management Discussion and Analysis—Continued
For the Fiscal Year Ended June 30, 2006**

As depicted below, 48% is spent on direct instruction, 38% is spent on support services, 8% on community service, food service, and athletic activities. The final 6% is used for debt service and other.

	<u>Expenditures by Function</u>				
	<u>2004-05</u>		<u>2005-06</u>		
Instruction	\$ 33,175,923	46%	\$ 35,328,244	48%	
Support services	27,122,647	38%	28,105,129	38%	
Community services	3,124,955	4%	2,776,455	4%	
Food services	2,175,924	3%	2,285,090	3%	
Athletics	599,816	1%	650,779	1%	
Debt service	4,854,099	7%	3,936,545	5%	
Other	489,151	1%	403,875	1%	
	<u>\$ 71,542,515</u>	<u>100%</u>	<u>\$ 73,486,117</u>	<u>100%</u>	

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. The combined governmental fund equity decreased by \$.5 million during the 2005-06 fiscal year, resulting in total fund equity of \$13.51 million at year-end. (The general operating fund portion of this is \$3.18 million.)

Factors Increasing Fund Equity

District reductions – In preparation for the 2005-06 fiscal year, the school district made adjustments in its operating budget to reduce costs associated with a reduction in the projected student enrollment. One of these actions was to eliminate numerous salaried positions in both the teaching and administrative ranks.

Factors Decreasing Fund Equity

Declining enrollment – Our trend of enrollment decline continued for 2005-06. The official State count decreased by 238 students. At \$7,133 per student this reduction cost the District \$1,697,654.

Other – As a result of expenditures exceeding revenues, the budget was balanced by shifting approximately \$1 million from fund equity to cover these overages.

2006-07 Outlook

Developing a balanced budget for 2006-07 required reductions of approximately \$1.9 million. As in 2005-06, the increases in salaries and benefits had to be partially financed with reductions of costs since the projected per pupil foundation allowance will not cover these increases. While this series of reductions has been very painful, the achievement of these reductions reflects the strong will and leadership of the Board of Education in response to the strong community desire to maintain the fiscal strength of the District. A unified will and effort has allowed the District to maintain its student-centered vision as the guiding force through the major cost reduction effort.

The Public Schools of the City of Muskegon Management Discussion and Analysis—Continued For the Fiscal Year Ended June 30, 2006

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget periodically during the school year in response to changes in the operating environment. These revisions are made in order to deal with unexpected changes in revenues and expenditures. During the 2005-06 year, the budget was amended two times. The December 2005 amendment incorporated the September student counts and actual staffing for the school year. The June 2006 amendment incorporated known State funding changes and the administration's best year end estimates of revenue and expense.

Original budget/final budget comparison

Revenues – There was a \$1,421,635 (2.2%) change in the total General Fund revenue budget from the *original* to the *final* budget of the year. The significant changes in revenue are:

- The *local source* revenue budget was increased by \$301,975 (4.0%). The increase was expected as a result of an increase in property tax revenue received and investment earnings.
- The *federal source* revenue budget was increased by \$1,197,244 (11.9%). This increase includes Title program carry over grants from 2004-05 and grants not obligated at the time of the original budget.

Expenditures – There was a \$1,686,649 (2.6%) increase in the total General Fund expenditures from the *original* budget to the *final* budget. The significant changes by functional category are:

- The *support services* increased \$2,612,774 (9.9%). Increase in support services was expected as a result of anticipated increases in instructional staff support activities funded by federal grants as well as changes to the state accounting manual as it relates to how transfers to other districts are recorded. A portion of the increase is attributed to the cost related to the outgoing superintendent's severance package and the increase in the cost of utilities.
- The *community services* increased \$399,729 (34.3%). This increase was due to the Head Start grant. Budget information for December 2005 - June 2006 was not included in the original budget.
- *Outgoing transfers and other transactions* decreased by \$1,364,306 (59.4%). Decreases in this category are due to changes in the state accounting manual as it relates to how transfers to other districts are recorded

Final budget/actual results comparison

Revenues – Actual revenues were \$417,090 less than anticipated. The significant differences are:

- Actual expenses for federal grant programs were less than expected and less than the grant allocations, as a result federal revenues were \$308,396 less than budgeted. This occurred as a result of budget projections implemented to avoid over expending final budget numbers, and as a result, must also be over estimated on the revenue side of the budget.

Expenditures – Actual expenses were \$713,252 less than anticipated. Significant differences between final budgeted and actual expenses occurred in Business, Operations and Maintenance and Pupil Transportation. The decrease in business expense occurred as a result of adjustments to staffing levels. Operations and maintenance purchased services was less than budget because more repair activities were done in house rather than contracted. Transportation money set aside for contracted transportation was less than budget as a result of a decrease in student ridership. ISD transportation services were less than budgeted.

**The Public Schools of the City of Muskegon
Management Discussion and Analysis—Continued
For the Fiscal Year Ended June 30, 2006**

Actual expenditures were \$949,364 greater than revenues. This resulted in over expenditures to support ongoing program activities in the areas of basic programs, added needs, and outgoing transfers and other transactions in conjunction with a decrease in actual revenue from final budget of \$417,090, creating an excess of expenditures over revenue of \$949,364.

Fund balance as of July 1, 2005, of \$4,126,093 was reduced to \$3,176,729 as of June 30, 2006.

The Ending Fund balance was more favorable than expected.

Capital Assets and Debt Administration

Capital Assets – A summary of the District’s capital assets at year-end is outlined below.

Summary of Capital Assets (Net of Depreciation)		
	June 30,	
	2005	2006
Non Depreciating Assets		
Land	\$1,499,304	\$ 1,537,304
Construction in Progress	73,935	75,237
Art and historic treasures	3,672,304	3,725,064
Depreciating Assets, Net		
Building and improvements	44,257,221	43,776,744
Land improvements	1,108,350	1,029,911
Furniture and equipment	2,397,922	1,971,440
Total	\$53,009,036	\$52,115,700

Debt Administration – A summary of the District’s indebtedness is outlined below.

Summary of Indebtedness		
	June 30,	
	2005	2006
2004 Refunding Issue	\$32,392,500	\$30,393,516
School Bond Loan Fund - General Obligation	2,743,644	2,255,442
1998 Durant bond issue	2,342,480	2,165,002
Installment Purchase Agreements	875,525	567,538
Severance agreements and compensated absences	2,667,951	2,860,799
Total	\$41,022,100	\$38,242,297

The district maintains numerous funds which support overall district objectives and services. Of these other governmental funds, food service, picture, debt service, library capital and permanent fund showed increase in fund balances. These balances reflect increases in revenue over expenditures as well as contributions made by organizations to several selected funds. The decrease of debt in the School Bond Loan Fund occurred as a result of a \$600,000 payment made to the fund according to payment terms.

**The Public Schools of the City of Muskegon
Management Discussion and Analysis—Continued
For the Fiscal Year Ended June 30, 2006**

The athletic, museum, and district public improvement funds reflect a decrease in fund balance. The public improvement fund expended \$383,282 on general improvement activities decreasing fund balance to \$474,673 as of June 30, 2006. Athletics expenditures exceeded revenues resulting in an ending fund balance of \$105,226. The museum had fewer individual gifts and state grant revenues from the prior year. In addition, there were more staff and hours worked during the year which increased wages and benefits.

The total other governmental fund balance increased by \$493,340 to \$10,329,690 as of June 30, 2006.

Net capital assets decreased \$893,336. This was due to the disposition of excess vocational center assets and the disposal of print shop equipment.

Numerous major capital expenditures took place including the installation of new roofs at Oakview and Nelson Schools, the installation of an attic catwalk system at the Muskegon Museum of Art and the completed installation of a parking lot extension at Muskegon High School. Credit ratings remain sound and there are no planned major facility or service activities which involve additional borrowing.

Debt reductions were in accordance with the required repayment terms.

For the 06/07 school year, an incurred liability of approximately \$347,000 is anticipated as result of a labor grievance settlement relating to added employee insurance contributions towards premiums.

Under State statute, the District is legally restricted from incurring long-term bonded debt in excess of 15% of the assessed value of taxable property within the school district. At June 30, 2006 the District's bonded debt of \$34,813,960 reduced by that full amount, bonds qualified by the State for guarantee, is below the \$86 million maximum.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Mr. Colin Armstrong, Superintendent, Public Schools of the City of Muskegon, 349 West Webster, Muskegon, MI 49440, telephone number (231) 720-2000.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 2, 2006

Board of Education
Public Schools of the City of Muskegon
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of the City of Muskegon (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Public Schools of the City of Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of the City of Muskegon, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated November 2, 2006, on our consideration of the Public Schools of the City of Muskegon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education
November 2, 2006
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The management's discussion and analysis and budgetary comparison information on pages i - vii and page 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The statistical data included on pages 36 - 51 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Brickley DeLong, PLC

Public Schools of the City of Muskegon
STATEMENT OF NET ASSETS
June 30, 2006

	ASSETS	Governmental Activities
CURRENT ASSETS		
Cash and cash equivalents		\$ 12,861,728
Investments		7,960,122
Receivables		1,636,411
Due from other governmental units		12,344,688
Inventories		303,410
Prepaid items		180,928
Total current assets		35,287,287
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		5,337,605
Depreciable		46,778,095
Bond issuance costs, net		244,701
Note and interest receivable		2,460,002
Total noncurrent assets		54,820,403
Total assets		90,107,690
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
State aid loan		10,750,000
Accounts payable and accrued liabilities		7,282,024
Due to other governmental units		2,150,578
Deferred revenue		126,187
Bonds and other obligations, due within one year		2,862,870
Total current liabilities		23,171,659
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year		35,379,427
Accrued interest		295,000
Total noncurrent liabilities		35,674,427
Total liabilities		58,846,086
NET ASSETS		
Invested in capital assets, net of related debt		21,399,347
Restricted		
Debt service		1,292,183
Permanent funds		
Expendable		202,069
Nonexpendable		7,556,497
Unrestricted		8,570,074
Total net assets		\$ 31,261,604

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
				Governmental activities
Governmental activities				
Instruction	\$ 35,390,635	\$ 146,249	\$ 11,126,958	\$ (24,117,428)
Support services	27,731,541	1,495,686	8,465,873	(17,769,982)
Community services	2,729,849	296,964	1,819,450	(613,435)
Food services	2,285,570	393,044	2,088,301	195,775
Athletics	642,464	98,065	-	(544,399)
Interest on long-term debt	1,374,655	-	-	(1,374,655)
Unallocated depreciation and amortization	1,246,071	-	-	(1,246,071)
Total governmental activities	<u>\$ 71,400,785</u>	<u>\$ 2,430,008</u>	<u>\$ 23,500,582</u>	(45,470,195)
General revenues				
Property taxes levied for				
General purposes				6,146,022
Debt service				4,189,294
Grants and contributions not restricted to specific programs				35,006,758
Investment earnings				1,174,689
Miscellaneous				217,880
Total general revenues				<u>46,734,643</u>
Change in net assets				1,264,448
Net assets at July 1, 2005				<u>29,997,156</u>
Net assets at June 30, 2006				<u>\$ 31,261,604</u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

BALANCE SHEET

Governmental Funds

June 30, 2006

	General Fund	Julia E. Hackley Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 10,479,985	\$ -	\$ 2,381,743	\$ 12,861,728
Investments	-	5,769,128	2,190,994	7,960,122
Receivables	1,611,909	-	15,502	1,627,411
Due from other governmental units	12,255,533	-	89,155	12,344,688
Due from other funds	336,597	-	162,649	499,246
Inventories	242,274	-	61,136	303,410
Prepaid items	29,024	-	16,550	45,574
Total assets	<u>\$ 24,955,322</u>	<u>\$ 5,769,128</u>	<u>\$ 4,917,729</u>	<u>\$ 35,642,179</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
State aid loan	\$ 10,750,000	\$ -	\$ -	\$ 10,750,000
Accounts payable	346,758	-	111,767	458,525
Accrued liabilities	6,587,567	-	32,230	6,619,797
Due to other governmental units	1,830,369	-	2,187	1,832,556
Due to other funds	331,579	-	200,983	532,562
Deferred revenue	1,932,320	-	10,000	1,942,320
Total liabilities	21,778,593	-	357,167	22,135,760
Fund balances				
Reserved				
Inventories	242,274	-	61,136	303,410
Prepaid items	29,024	-	16,550	45,574
Debt service	-	-	1,292,183	1,292,183
Permanent funds	-	5,769,128	1,989,438	7,758,566
Purchase of prints and restoration of artwork	-	-	202,069	202,069
Unreserved				
Undesignated				
General Fund	2,905,431	-	-	2,905,431
Special revenue funds	-	-	269,055	269,055
Capital project funds	-	-	730,131	730,131
Total fund balances	<u>3,176,729</u>	<u>5,769,128</u>	<u>4,560,562</u>	<u>13,506,419</u>
Total liabilities and fund balances	<u>\$ 24,955,322</u>	<u>\$ 5,769,128</u>	<u>\$ 4,917,729</u>	<u>\$ 35,642,179</u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balance—governmental funds		\$ 13,506,419
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 66,021,086	
Accumulated depreciation	<u>(13,905,386)</u>	52,115,700
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	285,252	
Accumulated amortization	<u>(40,551)</u>	244,701
Other long-term note and interest receivable in governmental activities is not reported in the governmental funds.		2,469,002
Accrued interest in governmental activities is not reported in the governmental funds.		(497,000)
Deferred revenue reported on the balance sheet that does not provide current financial resources is not reported as revenue in the governmental funds.		1,816,133
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and other obligations payable	(35,381,498)	
Compensated absences	(1,013,067)	
Early retirement incentives	<u>(1,847,732)</u>	(38,242,297)
Internal service fund balances are not part of the governmental funds but are reported in the Statement of Net Assets.		<u>(151,054)</u>
Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>31,261,604</u></u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2006

	General Fund	Julia E. Hackley Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 5,862,591	\$ -	\$ 4,189,294	\$ 10,051,885
Investment earnings	381,797	480,213	310,679	1,172,689
Fees and charges	1,461,147	-	603,184	2,064,331
Other	260,890	-	650,004	910,894
Total local sources	<u>7,966,425</u>	<u>480,213</u>	<u>5,753,161</u>	<u>14,199,799</u>
State sources	41,564,161	-	425,358	41,989,519
Federal sources	10,932,170	-	1,935,925	12,868,095
Total revenues	<u>60,462,756</u>	<u>480,213</u>	<u>8,114,444</u>	<u>69,057,413</u>
EXPENDITURES				
Instruction	35,328,244	-	-	35,328,244
Support services	28,105,129	-	-	28,105,129
Community services	1,547,151	-	-	1,547,151
Food services	-	-	2,285,090	2,285,090
Athletics	-	-	650,779	650,779
Museum	-	-	1,188,473	1,188,473
Picture	-	-	1,777	1,777
Permanent	-	23,022	16,032	39,054
Debt service				
Principal	-	-	2,560,890	2,560,890
Interest and other charges	-	-	1,375,655	1,375,655
Library capital improvements	-	-	20,593	20,593
Public improvements	-	-	383,282	383,282
Total expenditures	<u>64,980,524</u>	<u>23,022</u>	<u>8,482,571</u>	<u>73,486,117</u>
Excess (deficiency) of revenues over (under) expenditures	(4,517,768)	457,191	(368,127)	(4,428,704)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	4,271,126	-	25,000	4,296,126
Transfers in	258,572	-	1,098,008	1,356,580
Transfers out	(637,848)	(348,401)	(370,331)	(1,356,580)
Transfers to other governmental units and other transactions	(323,446)	-	-	(323,446)
Total other financing sources (uses)	<u>3,568,404</u>	<u>(348,401)</u>	<u>752,677</u>	<u>3,972,680</u>
Net change in fund balances	(949,364)	108,790	384,550	(456,024)
Fund balances at July 1, 2005	<u>4,126,093</u>	<u>5,660,338</u>	<u>4,176,012</u>	<u>13,962,443</u>
Fund balances at June 30, 2006	<u>\$ 3,176,729</u>	<u>\$ 5,769,128</u>	<u>\$ 4,560,562</u>	<u>\$ 13,506,419</u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	(456,024)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.		
Depreciation and amortization expense	\$	(1,246,071)
Capital outlay	<u>584,123</u>	(661,948)
Governmental funds report the entire proceeds from sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.		(248,168)
Payments received on notes receivable are reported as revenues in the governmental funds; the payments are netted against notes receivable on the Statement of Net Assets.		(177,478)
Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.		2,000
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		285,071
Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		3,084,449
Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		(110,798)
Compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(313,403)
The net revenue (expenses) of the internal service funds are reported in the governmental activities.		<u>(139,253)</u>
Change in net assets of governmental activities	\$	<u><u>1,264,448</u></u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
STATEMENT OF NET ASSETS (DEFICIT)
Internal Service Funds
June 30, 2006

ASSETS

Due from other funds	\$ 168,205
Prepaid items	<u>135,354</u>
 Total assets	 303,559

LIABILITIES AND NET ASSETS (DEFICIT)

Liabilities	
Accounts payable	1,702
Due to other governmental units	318,022
Due to other funds	<u>134,889</u>
 Total liabilities	 <u>454,613</u>
 Net assets (deficit)	
Unrestricted	 \$ <u><u>(151,054)</u></u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (DEFICIT)
Internal Service Funds
For the year ended June 30, 2006

REVENUES

Charges for services	\$ 489,505
Other	<u>95,649</u>
	585,154

EXPENSES

Costs of services	<u>724,407</u>
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Change in net assets (deficit)	(139,253)
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Net assets (deficit) at July 1, 2005	<u>(11,801)</u>
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Net assets (deficit) at June 30, 2006	<u><u>\$ (151,054)</u></u>
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The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended June 30, 2006

Cash flows from operating activities	
Receipts from prior year refund	\$ 95,649
Payments for premiums and claims	(724,407)
Payments from other funds for services	<u>628,758</u>
Net increase in cash	-
Cash balances at July 1, 2005	<u>-</u>
Cash balances at June 30, 2006	<u><u>\$ -</u></u>
Cash flows from operating activities	
Change in net assets	\$ (139,253)
Adjustments to reconcile change in net assets	
to net cash provided by operating activities	
(Increase) decrease in operating assets	
Due from other funds	138,729
Prepaid items	(23,569)
Increase (decrease) in operating liabilities	
Accounts payable	1,702
Due to other governmental units	32,734
Due to other funds	<u>(10,343)</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2006

	<u>Agency funds</u>
ASSETS	
Cash and cash equivalents	\$ 401,685
Receivables	2,911
Due from other governmental units	<u>16</u>
	<u>\$ 404,612</u>
LIABILITIES	
Accounts payable	\$ 49,793
Deposits held for others	<u>354,819</u>
	<u>\$ 404,612</u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Public Schools of the City of Muskegon (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District allocates indirect costs.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Julia E. Hackley Fund* is a fund to be utilized at the Board's discretion for school and educational purposes in the City of Muskegon and to provide additional educational advantages and opportunities to the children of the City of Muskegon.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service, athletic, picture and museum activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.
- The *permanent funds* are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

Internal service funds – Internal service funds account for workers' compensation and unemployment costs provided to various departments and funds of the School District, on a cost reimbursement basis.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balances for the principal.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deposit and Investments—Continued

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18
Debt service fund - Homestead and non-homestead	7

Inventories

Food service inventories are valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	15-50 years
Buses and other vehicles	10 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated. Art and historical treasures also are not depreciated as they generally appreciate in value over time.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. The Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2006, expenditures exceeded appropriations within basic programs by \$85,459 and added needs by \$86,401.

Fund Deficits

As of June 30, 2006, the internal service funds had a deficit of \$151,054. The deficit will be eliminated through future rate changes.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
<u>Permanent Funds</u>				
Money Market Mutual Funds				
Allegiant Money Market Fund	\$ 12,430	42	AAm	0 %
Fifth Third Banksafe Trust	7,362	7	A1+	0
Common Stock	191,783	N/A	N/A	2
Preferred Stock	272,047	N/A	N/A	3
Stock Mutual Funds				
Allegiant Large Cap Value Fd Class I	405,869	N/A	N/A	5
Dodge & Cox Intl Stock Fund	689,263	N/A	N/A	9
Dodge & Cox Stk Fund	1,036,791	N/A	N/A	13
First Eagle Fund of America	655,237	N/A	N/A	8
Fifth Third Equity Index Fund Trust	417,572	N/A	N/A	5
Jensen Portfolio Fund	628,391	N/A	N/A	8
T Rowe Price Growth Stock Fund	530,417	N/A	N/A	7
Other	1,835,412	N/A	N/A	23
Bond Mutual Funds				
Other rated	174,586	3,724	AAA	2
Other not rated	1,102,962	18,256	Not rated	14
Total fair value	\$ 7,960,122			100 %
Portfolio weighted average maturity		2,611		

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in requirement for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Concentration of credit risk. The School District does not have a concentration of credit risk policy, which is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$8,724,930 of the School District's bank balance of 13,824,930 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Custodial credit risk - investments. For an investment this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities allowed by law and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 1,499,304	\$ 38,000	\$ -	\$ 1,537,304
Construction in progress	73,935	1,302	-	75,237
Art and historical treasures	3,672,304	52,760	-	3,725,064
Total capital assets, not being depreciated	5,245,543	92,062	-	5,337,605
Capital assets, being depreciated:				
Land improvements	2,281,014	33,350	-	2,314,364
Buildings and improvements	53,444,361	326,176	-	53,770,537
Equipment	5,224,552	132,535	758,507	4,598,580
Total capital assets, being depreciated	60,949,927	492,061	758,507	60,683,481

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Less accumulated depreciation:				
Land improvements	1,172,664	111,789	-	1,284,453
Buildings and improvements	9,187,140	806,653	-	9,993,793
Equipment	2,826,630	310,849	510,339	2,627,140
Total accumulated depreciation	13,186,434	1,229,291	510,339	13,905,386
Total capital assets, being depreciated, net	47,763,493	(737,230)	248,168	46,778,095
Capital assets, net	\$ 53,009,036	\$ (645,168)	\$ 248,168	\$ 52,115,700

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Bond issuance costs	\$ 285,252	\$ -	\$ -	\$ 285,252
Less accumulated amortization	23,771	16,780	-	40,551
Bond issuance costs, net	\$ 261,481	\$ (16,780)	\$ -	\$ 244,701

Amortization

Amortization expense has been charged as unallocated amortization.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 201,708
General Fund	Internal service funds	134,889
Internal service funds	General Fund	168,205
Other governmental funds	General Fund	162,649
		<u>\$ 667,451</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

<u>Transfers out</u>	<u>Transfers in</u>		
	<u>General Fund</u>	<u>Other governmental funds</u>	<u>Total</u>
General Fund	\$ -	\$ 637,848	\$ 637,848
Julia E. Hackley Fund	-	348,401	348,401
Other governmental funds	258,572	111,759	370,331
Total	<u>\$ 258,572</u>	<u>\$ 1,098,008</u>	<u>\$ 1,356,580</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2006 follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>
State aid anticipation note				
2004/2005 2% due October 2005	\$ 6,900,000	\$ -	\$ 6,900,000	\$ -
2005/2006 2.92% due August 2006	<u>-</u>	<u>10,750,000</u>	<u>-</u>	<u>10,750,000</u>
	<u>\$ 6,900,000</u>	<u>\$ 10,750,000</u>	<u>\$ 6,900,000</u>	<u>\$ 10,750,000</u>

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Receivables	\$ 1,779,117	\$ -
Due from other governmental units	37,016	104,412
Student deposits	-	11,775
Other governmental funds		
Museum deposits	-	10,000
Total deferred revenue for governmental funds	<u>\$ 1,816,133</u>	<u>\$ 126,187</u>

NOTE I—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Loan Fund, equipment installment loans and the Education Interconnection and Consortium Financing Agreement.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2006:

	<u>Balance</u> <u>July 1, 2005</u>		<u>Additions</u>		<u>Reductions</u>		<u>Balance</u> <u>June 30, 2006</u>		<u>Due within</u> <u>one year</u>
Governmental activities:									
Bonds	\$ 34,734,980	\$	-	\$	2,176,462	\$	32,558,518	\$	2,085,928
Other obligations	3,619,169		111,798		907,987		2,822,980		252,231
Early retirement incentives	1,635,367		775,000		562,635		1,847,732		524,711
Compensated absences	1,032,584		380,882		400,399		1,013,067		-
	<u>\$ 41,022,100</u>	\$	<u>1,267,680</u>	\$	<u>4,047,483</u>	\$	<u>38,242,297</u>	\$	<u>2,862,870</u>

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

In the previous schedule, the additions for other obligations represent \$111,798 of accrued interest on the School Bond Loan Fund.

General obligation bonds consist of the following:

2004 Refunding Bond payable in annual installments ranging from \$1,900,000 to \$2,000,000 due May 2007 to 2021; plus interest ranging from 2% to 5% payable semi-annually	\$ 28,950,000
Plus issuance premium	1,443,516
Durant obligations payable in annual installments ranging from \$257,439 to \$1,215,054 including interest at 4.76% due May 2007 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	<u>2,165,002</u>
Total bonded debt	32,558,518

Other obligations

School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements or May 2027, whichever is sooner; interest payable of \$90,089 is included at interest rates between 2.625% and 4.5%	2,255,442
School bus installment loans payable in aggregate annual amounts ranging from \$33,856 to \$130,589 due through August 2009; plus interest ranging from 3% to 4.34%	331,021
Copier installment loan payable in monthly installments of \$4,384 due through December 2006; including interest at 4.2%	25,980

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Other obligations—Continued

Computer installment loan payable in quarterly installments of \$21,862 due through December 2007; plus interest at 2.85%	\$ 153,032
Education Interconnection and Consortium Financing Agreement payable in annual installments of \$8,215 due March 2007 to 2013	<u>57,505</u>
Total other obligations	2,822,980
Early retirement incentives	1,847,732
Compensated absences	<u>1,013,067</u>
	<u>\$ 38,242,297</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt, installment loans, the Education Interconnection and Consortium Financing Agreement, and early retirement incentives outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 2,862,870	\$ 1,225,712	\$ 4,088,582
2008	2,754,752	1,172,362	3,927,114
2009	2,608,241	1,116,721	3,724,962
2010	2,994,325	1,352,675	4,347,000
2011	2,256,865	993,159	3,250,024
2012-2016	10,274,135	3,745,070	14,019,205
2017-2021	<u>9,779,084</u>	<u>1,377,500</u>	<u>11,156,584</u>
	<u>\$ 33,530,272</u>	<u>\$ 10,983,199</u>	<u>\$ 44,513,471</u>

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE J—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, were 14.87 percent of payroll through September 30, 2005, and 16.34 percent effective October 1, 2005. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$6,168,000, \$5,444,000 and \$5,059,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE J—EMPLOYEE BENEFITS—Continued

Post-Retirement Health Care Benefits

Pursuant to employment contracts, certain employees electing early retirement are provided post-retirement health benefits which vary depending on the plan chosen and their age at retirement. Health care benefits terminate the month the person attains eligibility for full social security benefits, or dies, whichever occurs first; however, no more than ten (10) years of payments will be made. The School District records expenditures for these benefits when premiums are due. Future benefits will be funded out of future revenues. The cost of these benefits for the year ended June 30, 2006 was approximately \$66,000 provided to 237 participants.

NOTE K—COMMITMENTS AND CONTINGENCIES

Commitments

- **Operating leases** – The School District has lease agreements expiring at various dates through December 2009. Expense for the year ended June 30, 2006 was approximately \$18,000. The following is a schedule of future minimum rental payments required under operating leases for School District vehicles and office equipment.

Year ending June 30,	Amount
2007	\$ 15,400
2008	10,800
2009	<u>3,700</u>
	<u>\$ 29,900</u>

Contingencies

- **Litigation** – The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.
- **Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.
- **Grievance** – As of June 30, 2006, a grievance was filed by the teachers' association regarding health care coverage and the related employee shared premium costs. It is reasonably possible that a settlement will be reached during the year ended June 30, 2007. Costs associated with such settlement to be paid by the School District are estimated not to exceed \$350,000.

Public Schools of the City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE L—OTHER INFORMATION

Economic Dependence – Prior years' revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 64 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

NOTE M—SUBSEQUENT EVENT

On August 18, 2006, the School District received the proceeds of a \$10.5 million State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 20, 2007 and bears interest at the rate of 3.68 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Public Schools of the City of Muskegon
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 7,537,450	\$ 7,839,425	\$ 7,966,425	\$ 127,000
State sources	41,646,100	41,656,130	41,564,161	(91,969)
Federal sources	10,043,322	11,240,566	10,932,170	(308,396)
Incoming transfers and other transactions	4,761,037	4,673,423	4,529,698	(143,725)
Total revenues	63,987,909	65,409,544	64,992,454	(417,090)
EXPENDITURES				
Instruction				
Basic programs	21,709,500	22,802,270	22,887,729	(85,459)
Added needs	12,507,000	12,063,691	12,150,092	(86,401)
Adult and continuing education	901,850	290,841	290,423	418
Support services				
Pupil	6,728,950	6,939,549	6,903,691	35,858
Instructional staff	4,207,203	4,491,115	4,412,821	78,294
General administration	603,420	737,169	722,588	14,581
School administration	2,682,300	2,671,766	2,659,499	12,267
Business	1,916,150	1,854,441	1,612,088	242,353
Operations and maintenance	5,824,050	6,812,486	6,643,644	168,842
Pupil transportation services	2,582,850	3,462,089	3,233,317	228,772
Central	1,800,150	1,992,625	1,881,913	110,712
Other	41,200	37,807	35,568	2,239
Community services	1,165,150	1,564,879	1,547,151	17,728
Outgoing transfers and other transactions	2,298,648	934,342	961,294	(26,952)
Total expenditures	64,968,421	66,655,070	65,941,818	713,252
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(980,512)</u>	\$ <u>(1,245,526)</u>	(949,364)	\$ <u>296,162</u>
Fund balance at July 1, 2005			<u>4,126,093</u>	
Fund balance at June 30, 2006			\$ <u><u>3,176,729</u></u>	

OTHER SUPPLEMENTAL INFORMATION

Public Schools of the City of Muskegon
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2006

	Total other governmental funds	Special revenue				Debt retirement	Capital projects		Permanent Fund
		Food service	Athletics	Museum	Picture		Library capital improvements	Public improvements	
ASSETS									
Cash and cash equivalents	\$ 2,381,743	\$ 180,823	\$ 20,855	\$ 217,140	\$ -	\$ 1,229,499	\$ 225,125	\$ 507,788	\$ 513
Investments	2,190,994	-	-	-	202,069	-	-	-	1,988,925
Receivables	15,502	38	-	15,464	-	-	-	-	-
Due from other governmental units	89,155	64,084	-	-	-	71	25,000	-	-
Due from other funds	162,649	-	93,404	-	-	62,613	6,632	-	-
Inventories	61,136	12,956	-	48,180	-	-	-	-	-
Prepaid items	16,550	-	-	16,550	-	-	-	-	-
Total assets	<u>\$ 4,917,729</u>	<u>\$ 257,901</u>	<u>\$ 114,259</u>	<u>\$ 297,334</u>	<u>\$ 202,069</u>	<u>\$ 1,292,183</u>	<u>\$ 256,757</u>	<u>\$ 507,788</u>	<u>\$ 1,989,438</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	\$ 111,767	\$ 77,729	\$ 698	\$ 29,335	\$ -	\$ -	\$ 1,299	\$ 2,706	\$ -
Accrued liabilities	32,230	10,084	8,305	13,841	-	-	-	-	-
Due to other governmental units	2,187	65	-	2,122	-	-	-	-	-
Due to other funds	200,983	50,359	-	120,215	-	-	-	30,409	-
Deferred revenue	10,000	-	-	10,000	-	-	-	-	-
Total liabilities	<u>357,167</u>	<u>138,237</u>	<u>9,003</u>	<u>175,513</u>	<u>-</u>	<u>-</u>	<u>1,299</u>	<u>33,115</u>	<u>-</u>
Fund balances									
Reserved									
Inventories	61,136	12,956	-	48,180	-	-	-	-	-
Prepaid items	16,550	-	-	16,550	-	-	-	-	-
Debt service	1,292,183	-	-	-	-	1,292,183	-	-	-
Permanent funds	1,989,438	-	-	-	-	-	-	-	1,989,438
Purchase of prints and restoration of artwork	202,069	-	-	-	202,069	-	-	-	-
Unreserved									
Undesignated	999,186	106,708	105,256	57,091	-	-	255,458	474,673	-
Total fund balances	<u>4,560,562</u>	<u>119,664</u>	<u>105,256</u>	<u>121,821</u>	<u>202,069</u>	<u>1,292,183</u>	<u>255,458</u>	<u>474,673</u>	<u>1,989,438</u>
Total liabilities and fund balances	<u>\$ 4,917,729</u>	<u>\$ 257,901</u>	<u>\$ 114,259</u>	<u>\$ 297,334</u>	<u>\$ 202,069</u>	<u>\$ 1,292,183</u>	<u>\$ 256,757</u>	<u>\$ 507,788</u>	<u>\$ 1,989,438</u>

Public Schools of the City of Muskegon
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)**
Other Governmental Funds
For the year ended June 30, 2006

	Total other governmental funds	Special revenue				Debt retirement	Capital projects		Permanent Fund
		Food service	Athletics	Museum	Picture		Library capital improvements	Public improvements	
REVENUES									
Local sources									
Property taxes	\$ 4,189,294	\$ -	\$ -	\$ -	\$ -	\$ 4,189,294	\$ -	\$ -	\$ -
Investment earnings	310,679	-	-	-	18,462	49,397	8,025	16,444	218,351
Fees and charges	603,184	393,044	88,114	122,026	-	-	-	-	-
Other	650,004	-	9,951	568,878	-	-	-	71,175	-
Total local sources	5,753,161	393,044	98,065	690,904	18,462	4,238,691	8,025	87,619	218,351
State sources	425,358	152,376	-	15,500	-	257,482	-	-	-
Federal sources	1,935,925	1,935,925	-	-	-	-	-	-	-
Total revenues	8,114,444	2,481,345	98,065	706,404	18,462	4,496,173	8,025	87,619	218,351
EXPENDITURES									
Food services	2,285,090	2,285,090	-	-	-	-	-	-	-
Athletics	650,779	-	650,779	-	-	-	-	-	-
Museum	1,188,473	-	-	1,188,473	-	-	-	-	-
Picture	1,777	-	-	-	1,777	-	-	-	-
Permanent	16,032	-	-	-	-	-	-	-	16,032
Debt service									
Principal	2,560,890	-	-	-	-	2,560,890	-	-	-
Interest and other charges	1,375,655	-	-	-	-	1,375,655	-	-	-
Library capital improvements	20,593	-	-	-	-	-	20,593	-	-
Public improvements	383,282	-	-	-	-	-	-	383,282	-
Total expenditures	8,482,571	2,285,090	650,779	1,188,473	1,777	3,936,545	20,593	383,282	16,032
Excess (deficiency) of revenues over (under) expenditures	(368,127)	196,255	(552,714)	(482,069)	16,685	559,628	(12,568)	(295,663)	202,319
OTHER FINANCING SOURCES (USES)									
Transfers from other governmental units and other transactions	25,000	-	-	-	-	-	25,000	-	-
Transfers in	1,098,008	-	509,148	445,101	8,102	64,305	49,102	22,250	-
Transfers out	(370,331)	(169,467)	-	(30,352)	-	(64,305)	-	-	(106,207)
Total other financing sources (uses)	752,677	(169,467)	509,148	414,749	8,102	-	74,102	22,250	(106,207)
Net change in fund balances	384,550	26,788	(43,566)	(67,320)	24,787	559,628	61,534	(273,413)	96,112
Fund balances at July 1, 2005	4,176,012	92,876	148,822	189,141	177,282	732,555	193,924	748,086	1,893,326
Fund balances at June 30, 2006	\$ 4,560,562	\$ 119,664	\$ 105,256	\$ 121,821	\$ 202,069	\$ 1,292,183	\$ 255,458	\$ 474,673	\$ 1,989,438

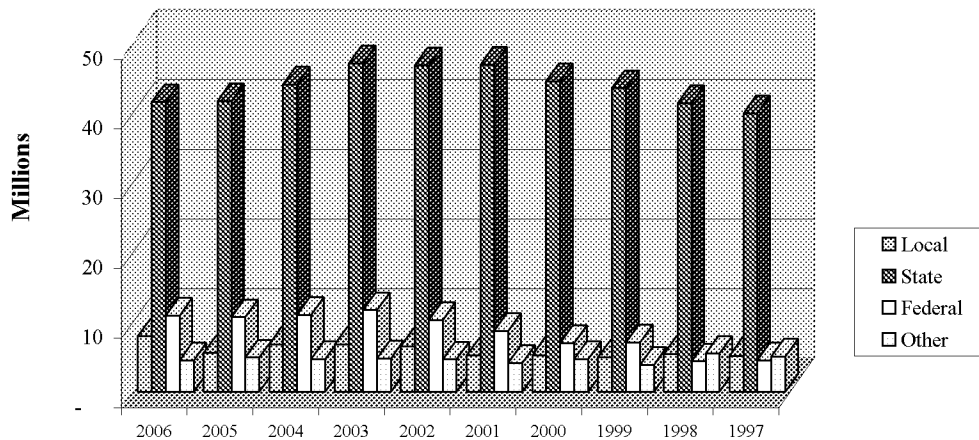
STATISTICAL DATA (Unaudited)

Public Schools of the City of Muskegon
GENERAL FUND REVENUES BY SOURCE

Ten years ended June 30, 2006
(Unaudited)

Year ended June 30	Local sources		State sources		Federal sources		Incoming transfers and other transactions	Total General Fund
1997	\$	5,171,463	\$	39,969,997	\$	4,547,103	\$ 5,069,788	\$ 54,758,351
		9.44 %		72.99 %		8.30 %	9.26 %	100.00 %
1998	\$	5,416,354	\$	41,424,236	\$	4,391,561	\$ 5,476,405	\$ 56,708,556
		9.55 %		73.05 %		7.74 %	9.66 %	100.00 %
1999	\$	4,934,895	\$	43,588,129	\$	7,107,554	\$ 3,887,557	\$ 59,518,135
		8.29 %		73.24 %		11.94 %	6.53 %	100.00 %
2000	\$	5,253,627	\$	44,558,072	\$	7,003,269	\$ 4,687,090	\$ 61,502,058
		8.54 %		72.45 %		11.39 %	7.62 %	100.00 %
2001	\$	5,209,059	\$	46,958,623	\$	8,770,254	\$ 4,132,621	\$ 65,070,557
		8.01 %		72.17 %		13.48 %	6.35 %	100.00 %
2002	\$	6,534,385	\$	46,864,260	\$	10,306,983	\$ 4,664,621	\$ 68,370,249
		9.56 %		68.54 %		15.08 %	6.82 %	100.00 %
2003	\$	6,803,258	\$	47,140,332	\$	11,723,982	\$ 4,777,432	\$ 70,445,004
		9.66 %		66.92 %		16.64 %	6.78 %	100.00 %
2004	\$	6,810,537	\$	44,075,598	\$	11,049,081	\$ 4,688,932	\$ 66,624,148
		10.34 %		66.24 %		16.60 %	7.03 %	100.21 %
2005	\$	5,571,818	\$	41,733,175	\$	10,716,759	\$ 4,922,238	\$ 62,943,990
		8.85 %		66.30 %		17.03 %	7.82 %	100.00 %
2006		7,966,425		41,564,161		10,932,170	4,529,698	64,992,454
		12.26 %		63.95 %		16.82 %	6.97 %	100.00 %

GENERAL FUND REVENUE BY SOURCE



Public Schools of the City of Muskogee
GENERAL FUND EXPENDITURES BY FUNCTION
Ten years ended June 30, 2006
(Unaudited)

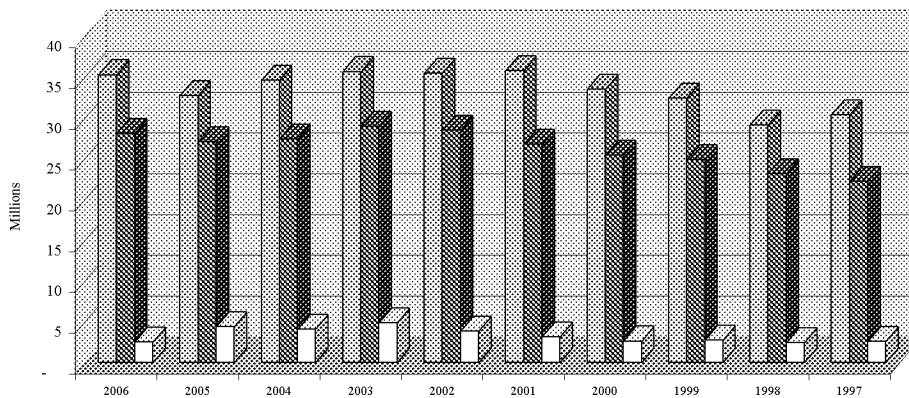
	2006			2005			2004			2003			2002		
Instruction															
Basic programs	\$	22,887,729	34.71 %	\$	19,109,599	29.72 %	\$	19,806,908	29.92 %	\$	20,143,194	28.96 %	\$	20,308,744	29.92 %
Added needs		12,150,092	18.43 %		12,606,879	19.61 %		13,709,236	20.71 %		14,213,437	20.44 %		13,796,980	20.33 %
Adult and continuing		296,423	0.44 %		1,052,051	1.64 %		1,116,112	1.69 %		1,355,432	1.95 %		1,415,540	2.09 %
Total instruction		35,328,244	53.57 %		32,768,529	50.97 %		34,632,256	52.32 %		35,712,063	51.35 %		35,521,244	52.34 %
Support services															
Pupil		6,903,691	10.47 %		6,935,370	10.79 %		7,554,026	11.41 %		7,664,186	11.02 %		7,500,529	11.05 %
Instruction		4,412,821	6.69 %		4,305,583	6.70 %		4,366,589	6.60 %		4,953,632	7.12 %		4,113,444	6.06 %
General administration		722,588	1.10 %		554,730	0.86 %		663,620	1.00 %		688,782	0.99 %		793,057	1.17 %
School administration		2,659,499	4.03 %		2,572,066	4.00 %		2,637,361	3.98 %		2,619,782	3.77 %		2,726,071	4.02 %
Business		1,612,088	2.44 %		1,553,020	2.42 %		1,799,924	2.72 %		1,490,858	2.14 %		1,753,425	2.58 %
Operation and maintenance															
of physical plant		6,643,644	10.08 %		6,719,236	10.45 %		6,429,402	9.71 %		7,136,703	10.26 %		7,675,848	11.31 %
Transportation		3,233,317	4.90 %		2,564,830	3.99 %		2,316,786	3.50 %		2,332,791	3.35 %		2,254,230	3.32 %
Central services		1,881,913	2.85 %		1,881,364	2.93 %		1,643,227	2.48 %		2,030,596	2.93 %		1,664,088	2.45 %
Other support services		35,568	0.05 %		36,448	0.06 %		34,268	0.05 %		40,457	0.06 %		42,314	0.06 %
Total support services		28,105,129	42.62 %		27,122,647	42.19 %		27,445,203	41.46 %		28,966,787	41.66 %		28,523,006	42.02 %
Other															
Community services		1,547,151	2.35 %		1,980,077	3.08 %		1,340,843	2.03 %		1,512,646	2.18 %		1,230,350	1.81 %
Outgoing transfers and															
other transactions		961,294	1.46 %		2,418,150	3.76 %		2,778,312	4.20 %		3,352,733	4.82 %		2,598,082	3.83 %
Total other		2,508,445	3.80 %		4,398,227	6.84 %		4,119,155	6.22 %		4,865,379	7.00 %		3,828,432	5.64 %
Total General Fund expenditures,															
Outgoing transfers and															
other transactions	\$	65,941,818	100.00 %	\$	64,289,403	100.00 %	\$	66,196,614	100.00 %	\$	69,544,229	100.00 %	\$	67,872,682	100.00 %

Source: Annual financial statements.

2001			2000			1999			1998			1997		
\$	20,657,765	31.43 %	\$	19,851,739	32.17 %	\$	19,159,098	31.89 %	\$	16,602,075	30.33 %	\$	17,392,622	31.47 %
	13,855,613	21.08 %		12,884,606	20.88 %		12,388,787	20.62 %		11,789,251	21.54 %		12,461,889	22.55 %
	1,298,782	1.98 %		845,640	1.37 %		874,845	1.46 %		731,758	1.34 %		551,661	1.00 %
	35,812,160	54.48 %		33,581,985	54.42 %		32,422,730	53.97 %		29,123,084	53.21 %		30,406,172	55.02 %
	7,253,858	11.03 %		7,214,875	11.69 %		7,069,299	11.77 %		6,708,979	12.26 %		6,067,122	10.98 %
	3,961,151	6.03 %		3,663,404	5.94 %		3,472,142	5.78 %		2,878,483	5.26 %		2,987,145	5.41 %
	786,496	1.20 %		713,515	1.16 %		692,075	1.15 %		649,361	1.19 %		676,277	1.22 %
	2,638,151	4.01 %		2,671,520	4.33 %		2,588,047	4.31 %		2,561,515	4.68 %		2,463,140	4.46 %
	1,808,523	2.75 %		1,857,080	3.01 %		1,457,204	2.43 %		1,473,921	2.69 %		1,428,619	2.58 %
	6,689,232	10.18 %		6,145,105	9.96 %		6,491,735	10.81 %		6,153,946	11.24 %		6,094,069	11.03 %
	2,380,279	3.62 %		2,085,258	3.38 %		2,007,865	3.34 %		1,883,160	3.44 %		1,773,753	3.21 %
	1,223,793	1.86 %		1,125,141	1.82 %		1,122,482	1.87 %		882,520	1.61 %		750,841	1.36 %
	41,092	0.06 %		17,080	0.03 %		8,237	0.01 %		6,222	0.01 %		2,691	0.00 %
	26,782,575	40.74 %		25,492,978	41.31 %		24,909,086	41.46 %		23,198,107	42.38 %		22,243,657	40.25 %
	1,004,696	1.53 %		168,373	0.27 %		185,572	0.31 %		158,905	0.29 %		63,780	0.12 %
	2,136,700	3.25 %		2,468,741	4.00 %		2,561,348	4.26 %		2,257,338	4.12 %		2,552,631	4.62 %
	3,141,396	4.78 %		2,637,114	4.27 %		2,746,920	4.57 %		2,416,243	4.41 %		2,616,411	4.73 %
\$	65,736,131	100.00 %	\$	61,712,077	100.00 %	\$	60,078,736	100.00 %	\$	54,737,434	100.00 %	\$	55,266,240	100.00 %

☐ Instruction
☒ Support services
☐ Other

PUBLIC SCHOOLS OF THE CITY OF MUSKEGON TEN YEAR HISTORY OF EXPENDITURES BY FUNCTION



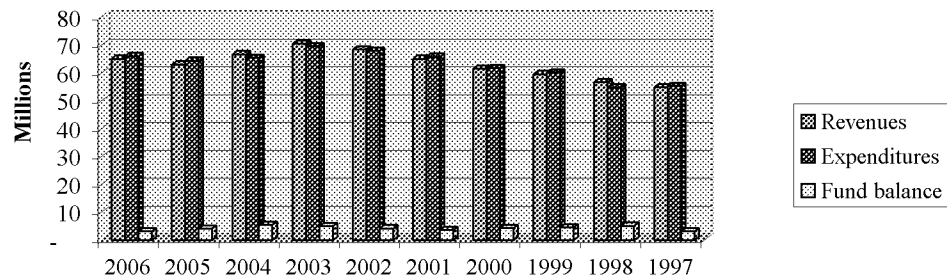
Public Schools of the City of Muskegon
GENERAL FUND REVENUES, EXPENDITURES AND FUND BALANCE

Ten years ended June 30, 2006

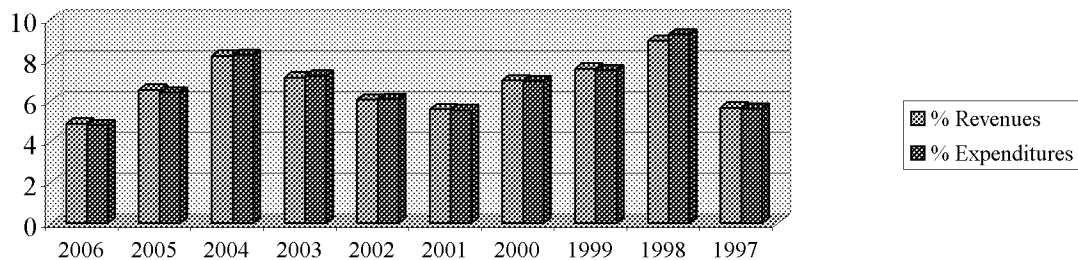
(Unaudited)

Year ended June 30		Revenues	Fund balance % of revenues	Expenditures	Fund balance % of expenditures	Fund balance	Fund balance % of increase
1997	\$	54,758,351	5.68 %	\$ 55,266,240	5.63 %	\$ 3,109,701	(14.04) %
1998		56,708,556	8.96 %	54,737,434	9.28 %	5,080,823	63.39 %
1999		59,518,135	7.59 %	60,078,736	7.52 %	4,520,222	(11.03) %
2000		61,502,058	7.01 %	61,712,077	6.98 %	4,310,203	(4.65) %
2001		65,070,557	5.60 %	65,735,131	5.55 %	3,645,629	(15.42) %
2002		68,370,249	6.06 %	67,872,682	6.10 %	4,143,196	13.65 %
2003		70,445,004	7.16 %	69,544,229	7.25 %	5,043,971	21.74 %
2004		66,624,148	8.21 %	64,289,403	8.27 %	7,378,716	8.48 %
2005		62,943,990	6.56 %	64,289,403	6.42 %	4,126,093	(44.08) %
2006		64,992,454	4.89 %	65,941,818	4.82 %	3,176,729	(23.01) %

**Ten Year History
Revenues, Expenditures, & Fund Balance**



**Ten Year History
Fund balance as a % of Revenues & Expenditures**



Public Schools of the City of Muskegon
PROPERTY TAX LEVIES AND COLLECTIONS

Ten years ended June 30, 2006

(Unaudited)

The School District's fiscal year begins July 1 and ends June 30. School District property taxes are due December 1 of each fiscal year and are primarily payable without penalty or interest on or before the following February 14. All real property taxes remaining unpaid on March 1st of the year following the levy are turned over to the County Treasurer for collection. Muskegon County annually pays from its Tax Revolving Fund, delinquent taxes on real property to all taxing units in the County, including the School District, shortly after the date delinquent taxes are returned to the County Treasurer for collection. The payments from this fund have resulted in collections of taxes approaching 100 percent for all taxing units. Delinquent personal property taxes are negligible.

A history of tax levies and collections for the School District is as follows:

Year ended June 30	Total tax levy	Current year tax collections to March 1 (note)		Total tax collections for levy year	
1997	\$ 7,833,071	\$ 5,765,725	73.61 %	\$ 7,837,010	100.05
1998	8,175,388	5,589,575	68.37	8,236,472	100.75
1999	7,970,396	2,658,789	33.36	7,946,327	99.70
2000	8,219,984	2,800,859	34.07	7,967,776	96.93
2001	8,544,763	6,389,949	74.78	8,186,016	95.80
2002	8,906,318	7,233,658	81.22	8,541,167	95.90
2003	9,211,339	7,532,014	81.77	8,878,814	96.39
2004	9,085,965	7,037,002	77.45	8,565,537	94.27
2005	9,323,170	7,088,888	76.04	8,914,070	95.61
2006	9,415,624	7,229,159	76.78	9,280,909	98.57

Note—Property tax collections during the School District's fiscal year coincide with the year of levy.

Public Schools of the City of Muskegon
PROPERTY TAX RATES—ALL OVERLAPPING GOVERNMENTS
 Ten years ended June 30, 2006
 (Unaudited)

TAX RATES (Per \$1,000 of Valuation)

Under Michigan statutes, the property tax base used for levies authorized for school districts is the same as that used for county, township, special authority, and city levies. Each school district, county, township, special authority, and city has a geographical definition which constitutes a tax district. Since local school districts and the county overlap either a township or a city, and intermediate school districts overlap local school districts and county boundaries, the result is many different tax rate districts.

	<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>	<u>2001/02</u>
School Tax Rates					
Operating					
Voted					
Non Homestead	18.0000	18.0000	18.0000	18.0000	18.0000
Hackley Public Library	-	-	-	-	-
Debt Retirement	<u>7.0000</u>	<u>7.0000</u>	<u>7.0000</u>	<u>7.0000</u>	<u>7.0000</u>
Total School	25.0000	25.0000	25.0000	25.0000	25.0000
Other Tax Rates					
School District Tax					
State Education Tax	6.0000	6.0000	5.0000	6.0000	6.0000
Library	2.4000	2.4000	2.4000	2.4000	2.4000
County					
County Operating Tax	5.6984	5.6984	5.6984	5.6984	5.7490
Community College	2.2037	2.2037	2.2037	2.2037	2.2233
Quality of Life	0.3800	0.4000	0.4000	0.4000	0.4300
Museum	0.3221	0.3221	0.3221	0.3221	0.3250
Central Dispatch	0.3000	-	-	-	-
Veteran Services	0.0752	0.0752	0.0752	0.0752	0.0759
Muskegon Area Intermediate					
School District	<u>3.7580</u>	<u>3.7580</u>	<u>3.7580</u>	<u>3.7596</u>	<u>2.7842</u>
Total Other Taxes	21.1374	20.8574	19.8574	20.8590	19.9874
City of Muskegon	11.0755	11.0766	10.0774	10.0786	10.0792
Total City of Muskegon					
Non Homestead	57.2129	56.9340	54.9348	55.9376	55.0666
Homestead	39.2129	38.9340	36.9348	37.9376	37.0666
City of Norton Shores	8.1837	8.1837	8.1837	8.1837	8.1837
Total City of Norton Shores					
Non Homestead	54.3211	54.0411	53.0411	54.0427	53.1711
Homestead	36.3211	36.0411	35.0411	36.0427	35.1711
Muskegon Township	6.8534	4.4072	4.4072	8.8350	9.0626
Total Muskegon Township					
Non Homestead	52.9908	50.2646	49.2646	54.6940	54.0500
Homestead	34.9908	32.2646	31.2646	36.6940	36.0500

<u>2000/01</u>	<u>1999/00</u>	<u>1998/99</u>	<u>1997/98</u>	<u>1996/97</u>
18.0000	18.0000	18.0000	18.0000	18.0000
0.9947	0.9947	1.0000	1.0000	1.0000
<u>7.0000</u>	<u>7.0000</u>	<u>7.0000</u>	<u>7.0000</u>	<u>7.0000</u>
25.9947	25.9947	26.0000	26.0000	26.0000
6.0000	6.0000	6.0000	6.0000	6.0000
-	-	-	-	-
5.7966	5.8240	5.8416	5.8416	5.8160
2.2417	2.2523	2.2591	2.2591	2.2591
0.4300	0.4300	0.4700	0.4700	0.4700
0.3224	0.3240	0.3250	0.3250	0.3250
-	-	-	-	-
0.0766	0.0770	0.0770	0.0770	0.0770
<u>2.8049</u>	<u>2.8184</u>	<u>2.8294</u>	<u>2.8294</u>	<u>2.8294</u>
17.6722	17.7257	17.8021	17.8021	17.7765
10.0792	10.0792	10.0792	10.0792	10.0792
53.7461	53.7996	53.8813	53.8813	53.8557
34.7514	34.8049	34.8813	34.8813	34.8557
8.1837	8.1837	8.1837	8.1837	8.1837
51.8506	51.9041	51.9858	51.9858	51.9602
32.8559	32.9094	32.9858	32.9858	32.9602
9.0626	9.0626	9.0626	9.0626	9.0626
52.7295	52.7830	52.8647	52.8647	52.8391
33.7348	33.7883	33.8647	33.8647	33.8391

Public Schools of the City of Muskegon
**PERCENT OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL
 BONDED DEBT TO TOTAL GENERAL EXPENDITURES**

Ten years ended June 30, 2006

(Unaudited)

Year ended June 30	Debt Service Expenditures				Expenditures (note A)	Percent of debt service to total expenditures (note A)
	Principal	Interest and fees	Other expense	Total		
1997	\$ 1,475,000	\$ 2,553,317	\$ 354,395	\$ 4,382,712	\$ 63,583,020	6.89 %
1998	1,505,000	2,471,979	421,930	4,398,909	62,851,462	7.00
1999	1,910,837	2,481,440	419,425	4,811,702	68,625,988	7.01
2000	1,866,658	2,405,693	158,884	4,431,235	70,116,295	6.32
2001	1,920,870	2,288,888	275	4,210,033	74,057,024	5.68
2002	1,740,771	2,167,521	905	3,909,197	75,953,070	5.15
2003	1,425,000	1,949,263	825	3,375,088	76,154,323	4.43
2004	1,495,000	1,857,669	1,062	3,353,731	72,636,257	4.62
2005	2,433,257	2,419,391	750	4,853,398	71,542,515	6.78
2006	2,560,890	1,375,405	250	3,936,545	73,486,117	5.36

Note A: Total of General Fund, Special Education Fund, School Service Fund, and Debt Service Fund expenditures

Source: Michigan Department of Education "ISD & LEA Annual School District Financial Report" (Form DS-4169)

Public Schools of the City of Muskegon
GENERAL FINANCIAL INFORMATION
Year ended June 30, 2006
(Unaudited)

Tax Base Composition

A breakdown of the District's 2005/2006 taxable valuation (TV) by municipality, class and use is as follows:

<u>By municipality</u>	<u>Homestead</u>	<u>Non-Homestead</u>	<u>Taxable valuation</u>	<u>Percent of TV</u>
Muskegon Township	\$ 27,209	\$ 1,750,482	\$ 1,777,691	0.31 %
City of Muskegon	246,077,386	298,732,319	544,809,705	94.54
Norton Shores	9,021,706	20,656,613	29,678,319	5.15
Total	<u>\$ 255,126,301</u>	<u>\$ 321,139,414</u>	<u>\$ 576,265,715</u>	<u>100.00 %</u>

<u>By class</u>	<u>Taxable valuation</u>	<u>Percent of TV</u>
Real property	\$ 511,433,374	88.75 %
Personal property	64,832,341	11.25
Total	<u>\$ 576,265,715</u>	<u>100.00 %</u>

<u>By use</u>		
Commercial	\$ 136,280,186	23.65 %
Industrial	24,300,587	4.22
Residential	350,852,601	60.88
Personal	64,832,341	11.25
Total	<u>\$ 576,265,715</u>	<u>100.00 %</u>

Source: 2006 Equalization Report, Muskegon County, Michigan

HEADLEE ROLLBACK

Article IX, Section 31 of the Michigan Constitution requires that if the total taxable value of existing property in a local taxing unit, exclusive of new construction and improvements, increases faster than the U.S. Consumer Price Index from one year to the next, the maximum authorized tax rate must be reduced through a millage reduction.

Public Schools of the City of Muskegon
GENERAL FINANCIAL INFORMATION—CONTINUED
Year ended June 30, 2006
(Unaudited)

MAJOR TAXPAYERS

The top ten taxpayers in the District and their 2006 taxable valuations are as follows:

	<u>Total taxable value</u>	<u>Percent of taxable values</u>
Consumers Energy Company	\$ 70,719,999	9.68 %
Sappi	50,633,310	6.93
DTE	8,682,364	1.19
Johnson Technology	7,520,289	1.03
ADAC Plastics	7,440,086	1.02
Brunswick	7,340,058	1.00
Bekaert Steel Wire Corporation	5,950,594	0.81
Lorin Industries	5,838,622	0.80
ESCO Company	5,833,749	0.80
Holland Neway International	5,621,661	0.77
Total	<u>\$ 175,580,732</u>	<u>24.03 %</u>

Source: Muskegon County Equalization Department

LABOR FORCE

A breakdown of the number of employees of the Public Schools of the City of Muskegon and their affiliation with organized groups is as follows:

<u>Employees</u>	<u>Number</u>	<u>Affiliation</u>	<u>Contact expiration</u>
Administrators	34	None	06/30/08
Professional Staff	381	Muskegon Education Association	06/30/08
Support Staff/Clerks/Cooks/ Classroom Assistants	156	Muskegon Education Association	06/30/08
Custodial/Maint/Bus Drivers	103	Non Instructional Em. Assoc.	06/30/09
Para-professionals	<u>188</u>	None	06/30/09
Total	<u>862</u>		

Public Schools of the City of Muskegon
GENERAL FINANCIAL INFORMATION—CONTINUED
Year ended June 30, 2006
(Unaudited)

DEBT STATEMENT

Direct Debt

<u>Date issue</u>	<u>Purpose</u>	<u>Type</u>	<u>Interest Spread</u>	<u>Maturities</u>	<u>Amount outstanding</u>
02/10/04	2004 Refunding	UTQ	2-5 %	1,900,000 5/1/2007	
				1,900,000 5/1/2008	
				1,900,000 5/1/2009	
				1,925,000 5/1/2010	
				1,925,000 5/1/2011	
				1,925,000 5/1/2012	
				1,925,000 5/1/2013	
				1,925,000 5/1/2014	
				1,925,000 5/1/2015	
				1,925,000 5/1/2016	
				1,925,000 5/1/2017	
				1,925,000 5/1/2018	
				1,925,000 5/1/2019	
				2,000,000 5/1/2020	
				2,000,000 5/1/2021	
Net Direct Debt					\$ <u><u>28,950,000</u></u>

Public Schools of the City of Muskegon
GENERAL FINANCIAL INFORMATION—CONTINUED
Year ended June 30, 2006
(Unaudited)

DEBT STATEMENT—Continued
Overlapping Debt

Percent of total taxable value (TV) in this School District	<u>Government</u>	Total outstanding debt	District taxpayers' share based on percent of TV
79.93 %	City of Muskegon	\$ 18,656,852	\$ 14,912,422
3.56	City of Norton Shores	6,418,178	228,487
0.50	Muskegon Township	27,387,078	136,935
14.47	Muskegon County	21,595,000	3,049,214
14.38	Muskegon Area Intermediate School District	-	-
14.47	Muskegon Community College	17,955,000	2,535,246
Net Overlapping Debt			20,862,304
Direct (District) Debt			28,950,000
Net Direct And Overlapping Debt			<u>\$ 49,812,304</u>

Source: Stauder, Barch & Associates

DEBT RATIOS

Per Capita	40,070	
Net Direct Debt		\$ 722.49
Net Direct and Overlapping Debt		\$ 1,243.13
Debt to 2005/2006 State Equalized Valuation	\$ 576,265,715	
Net Direct Debt		5.02 %
Net Direct and Overlapping Debt		8.64 %
Debt to 2005/2006 Estimated True Cash Valuation	\$ 1,152,531,430	
Net Direct Debt		2.51 %
Net Direct and Overlapping Debt		4.32 %

DEBT HISTORY

The District has no record of default.

SHORT-TERM BORROWING

The District has school bus obligations and other obligations outstanding.

Public Schools of the City of Muskegon
GENERAL FINANCIAL INFORMATION—CONTINUED
Year ended June 30, 2006
(Unaudited)

LEGAL DEBT MARGIN

2005/06 Taxable Valuation		\$ 576,265,715
		<u>x .15</u>
Debt limit (15% of 2005/06 Taxable Valuation)		86,439,857
Debt outstanding, including bonds described herein	\$ 33,837,982	
Less qualified bonds*	<u>28,950,000</u>	
Additional debt which could be legally incurred		<u>\$ 81,551,875</u>

* Act 451, Public Acts of Michigan, 1976, provides debt limits as follows:

- (a) Section 1351 (3)—The bonded indebtedness of a school district shall not exceed 15 percent of all assessed valuation of the district. Bonds not included in the computation of the legal debt margin, according to Section 1351 (3) are: (1) refunding bonds, (2) any bond qualified under Article IX, Section 16, of the 1963 Michigan Constitution, and (3) deficit budget bonds as authorized by Section 1356.

SCHOOL BOND LOAN FUND (SBLF) PROGRAM

Act 108, P.A. of Michigan 1961, as amended, enacted pursuant to Article IX, Section 16 of the Michigan Constitution of 1963, provides that if for any reason the Issuer of School Bond Loan Qualified Bonds will be or is unable to pay the principal and interest on the Bonds when due, the Issuer shall borrow, and the State of Michigan shall lend to it, an amount sufficient to enable the Issuer to make payment.

Public Schools of the City of Muskegon
GENERAL ECONOMIC INFORMATION
Year ended June 30, 2006
(Unaudited)

LOCATION AND AREA

Encompassing approximately 19.3 square miles and located on the Lake Michigan shoreline of Michigan's central Lower Peninsula, in the southwest portion of Muskegon County, the District incorporates a majority of the City of Muskegon and portions of the City of Norton Shores and the Township of Muskegon. Muskegon Lake serves as a deep water harbor and is connected to lake Michigan by a navigable channel. The City of Muskegon is the county seat of Muskegon County and the most populous area on Michigan's western shoreline.

The District is located the following distances from these commercial and industrial areas:

40	miles northwest of Grand Rapids
84	miles northwest of Kalamazoo
90	miles north of Benton Harbor
104	miles northwest of Lansing
134	miles south of Traverse City
144	miles west of Flint
166	miles northwest of Ann Arbor
183	miles northeast of Chicago
188	miles northwest of Detroit

POPULATION BY AGE

The 2005 Census estimate of population by age for Muskegon is as follows:

	<u>Number</u>	<u>Percent</u>
Total population	169,500	100.00 %
0 through 17 years	24,934	14.71
18 through 64 years	123,849	73.07
65 years and over	20,717	12.22
Median age	36.1	

Source: <http://factfinder.census.gov/>

Public Schools of the City of Muskegon
GENERAL ECONOMIC INFORMATION—CONTINUED
Year ended June 30, 2006
(Unaudited)

INCOME—Continued

	<u>Number</u>	<u>Percent</u>
INCOME		
The 2005 U.S. Census estimate of family income for Muskegon County is as follows:		
	<u>Number</u>	<u>Percent</u>
Households by Income	45,207	100.00 %
Less than \$10,000	2,142	4.74
\$10,000 to \$14,999	2,317	5.13
\$15,000 to \$24,999	4,970	10.99
\$25,000 to \$34,999	4,791	10.60
\$35,000 to \$49,999	7,786	17.22
\$50,000 to \$74,999	10,367	22.93
\$75,000 to \$99,999	7,241	16.02
\$100,000 to \$149,999	4,051	8.96
\$150,000 to \$199,999	535	1.18
\$200,000 or more	1,007	2.23
Household Income	\$ 49,111	
Per Capital Income	\$ 20,848	

Sources:

Census data - <http://factfinder.census.gov>

Non-census data - 2005 Editor and Publisher Market Guide

HOUSING

On the average, homes in the District range in value from a low of \$45,000 to a high of \$150,000. Homes on the Muskegon Lake front value as high as \$300,000. Condominiums are selling for \$150,000 to \$250,000 and rental units average \$250 to \$465 per month.

A ten (calendar) year history of building permits issued with permit values follows:

New					Repairs and additions				Total permits	
	<u>Residential</u>		<u>Non-residential</u>		<u>Residential</u>		<u>Non-residential</u>			
1995	30	5,855,006	12	2,477,434	846	2,714,612	82	5,855,005	970	16,902,057
1996	30	2,540,100	10	11,208,589	895	2,371,656	76	8,460,306	1,011	24,580,651
1997	24	2,266,142	9	6,081,963	705	2,658,001	105	14,564,170	843	25,570,276
1998	56	4,598,023	12	8,192,401	729	2,319,745	186	10,159,958	983	25,270,127
1999	53	4,386,560	11	3,659,209	686	2,206,456	136	8,660,948	886	18,913,173
2000	70	6,853,824	16	11,827,076	649	2,439,629	124	18,374,394	859	39,494,923
2001	37	14,035,551	8	3,736,102	747	3,259,006	101	5,021,890	893	26,052,549
2002	72	17,619,093	6	3,696,711	805	3,539,602	125	14,849,768	1,008	39,705,174
2003	45	4,921,925	4	1,720,000	858	4,032,068	154	10,695,552	1,061	21,369,545
2004	38	4,686,880	7	1,241,000	1,001	4,508,821	106	27,506,374	1,152	37,943,075
2005	41	5,525,790	4	2,735,505	761	3,768,074	160	18,011,656	966	30,041,025

Source: Bureau of the Census, City of Muskegon, Neighborhood Construction Services

Public Schools of the City of Muskegon
GENERAL ECONOMIC INFORMATION—CONTINUED
Year ended June 30, 2006
(Unaudited)

EMPLOYMENT CHARACTERISTICS

The following companies located in the District and surrounding communities offer employment opportunities.

<u>Company</u>	<u>Product/service</u>	<u>Number of employees</u>
Howmet Corporation	Aircraft & aerospace products	2,427
Mercy General Health Partners	Hospital/Health care services	2,108
Hackley Health	Hospital/Health care services	1,568
Meijer	Department stores	1,300
County of Muskegon	County government	1,150
Muskegon Public Schools	Education	1,110
Muskegon Correctional Facility	Government	847
Hayes Lemmerz International	Motor vehicle parts & accessories	558
ADAC Plastics	Plastic products	481
Johnson Technology, Inc.	Aircraft engines	476
Knoll	Office furniture	460
L3 Communications	Defense vehicle systems	450
Eagle Alloy Inc	Machining	420
Dana Corporation	Motor vehicle parts	400
Yale Lift-Tech	Hoists	340
Muskegon Community College	Education	335
Sun Chemical	Industrial organic chemicals	305
CWC Textron	Manufacturing	305
Plumb's Valu-Rite Food	Grocery stores	300

Source: Muskegon Area Chamber of Commerce, Muskegon Area First as of June 2006

Public Schools of the City of Muskegon
GENERAL ECONOMIC INFORMATION—CONTINUED
 Year ended June 30, 2006
 (Unaudited)

EMPLOYMENT BREAKDOWN

The 2000 U.S. Census reports the occupational breakdown of persons 16 years and over for Muskegon County as follows:

	<u>Number</u>	<u>Percent</u>
<i>Persons by occupation</i>	76,788	100.00 %
Management, professional and related occupations	18,682	24.33
Service occupations	12,002	15.63
Sales and office occupations	19,211	25.02
Farming, fishing and forestry occupations	349	0.45
Construction, extraction and maintenance occupations	6,730	8.76
Production, transportation and material moving occupations	19,814	25.81

The breakdown by industry for persons 16 years and over in Muskegon County is as follows:

	<u>Number</u>	<u>Percent</u>
<i>Persons by industry</i>	76,788	100.00 %
Agriculture, forestry, fisheries, etc.	566	0.74
Construction	4,455	5.80
Manufacturing	23,402	30.47
Wholesale trade	2,025	2.64
Retail trade	10,202	13.29
Transportation, warehousing and utilities	2,230	2.90
Information	1,303	1.70
Finance, insurance and real estate	2,875	3.74
Professional, scientific, management, administrative and waste management services	3,853	5.02
Educational, health and social services	13,960	18.18
Entertainment and recreational services	5,491	7.15
Other professional and related services	3,682	4.80
Public administration	2,744	3.57

Source: <http://factfinder.census.gov>

Public Schools of the City of Muskegon
GENERAL ECONOMIC INFORMATION—CONTINUED
Year ended June 30, 2006
(Unaudited)

UNEMPLOYMENT

The Michigan Employment Security Agency, Research, and Statistical Division, reports unemployment averages for Muskegon County as compared to the State of Michigan as follows:

	<u>County of Muskegon</u>	<u>State of Michigan</u>
2005 YTD average through July	6.0 %	6.3 %
2004 Annual average	6.7	6.8
2003 Annual average	10.5	7.2
2002 Annual average	9.2	6.2
2001 Annual average	6.9	5.3
2000 Annual average	4.6	3.6
1999 Annual average	4.7	3.8
1998 Annual average	4.4	3.9
1997 Annual average	4.9	4.2
1996 Annual average	6.0	4.9
1995 Annual average	6.4	4.1
1994 Annual average	7.3	5.9

Source: website -- www.michlmi.org

RETAIL SALES

A breakdown of retail sales (000's omitted) for the County as compared to the State of Michigan, as reported in the 2005 Editor & Publishers Market Guide is as follows:

<u>Product/service</u>	<u>Number of stores</u>		<u>Estimate of sales</u>	
	<u>County of Muskegon</u>	<u>State of Michigan</u>	<u>County of Muskegon</u>	<u>State of Michigan</u>
Building materials	55	3,541	\$ 240,661	\$ 14,597,669
General merchandise	20	1,214	568,092	25,501,528
Food/beverage	73	6,151	220,704	17,098,378
Motor vehicle/parts	102	4,126	490,175	42,559,473
Gasoline	62	4,315	160,210	9,374,034
Clothing/accessories	60	5,144	55,705	6,613,587
Furniture	35	2,052	48,637	4,215,794
Electric/appliance	22	1,455	48,711	3,899,556
Health/personal care	46	2,869	143,469	8,770,964
Other	116	8,697	133,890	11,346,581
Totals	<u>591</u>	<u>39,564</u>	<u>\$ 2,110,254</u>	<u>\$ 143,977,564</u>

Public Schools of the City of Muskegon
GENERAL ECONOMIC INFORMATION—CONTINUED
Year ended June 30, 2006
(Unaudited)

BANKING

The following banks serve the financial needs of the county's residents.

<u>Bank</u>	<u>Main office</u>	<u>Total deposits</u>	<u>Total assets</u>
Bank One, National Association	Columbus, OH	\$ 209,697	\$ 3,619,827
Comerica Bank	Detroit, MI	43,472,029	57,065,230
Community Shores Bank	Muskegon, MI	194,720	225,063
Fifth Third Bank	Grand Rapids, MI	37,974,139	47,875,754
Flagstar Bank, FSB	Troy, MI	7,979,000	16,075,000
Independent Bank MSB	Bay City, MI	1,074,845	1,460,192
Muskegon Commerce Bank	Muskegon, MI	69,905	97,898
National City Bank	Cleveland, OH	33,409,804	72,949,011
Republic Bank	Lansing, MI	3,095,676	6,223,197
The Shelby State Bank	Shelby, MI	145,812	164,624
The Huntington National Bank	Columbus, OH	24,228,777	35,241,416

Source: www.FDIC.gov/ --June 30, 2005 information

SCHOOL ENROLLMENT

Historical enrollment (full time equivalent--FTE) for the District (as of fall count date in each school year) is as follows:

<u>School year</u>	<u>Enrollment</u>	<u>School year</u>	<u>Enrollment</u>
2005/06	5,690	1999/00	6,788
2004/05	6,036	1998/99	6,940
2003/04	6,182	1997/98	7,116
2002/03	6,455	1996/97	7,022
2001/02	6,584	1995/96	7,205
2000/01	6,761		

Enrollment by grades--2005/2006 (fall count date)

Kindergarten	513	Seventh	360
First	373	Eighth	386
Second	371	Ninth-Twelfth	1,398
Third	380	Special Education	653
Fourth	389	Alternative Education	156
Fifth	332	Adult Education participants	71
Sixth	308		
		Total	5,690

Public Schools of the City of Muskegon
GENERAL ECONOMIC INFORMATION—CONTINUED
 Year ended June 30, 2006
 (Unaudited)

EXISTING SCHOOL FACILITIES

<u>School</u>	<u>Grades</u>	<u>Year completed</u>	<u>Additions</u>	<u>Type of construction</u>	<u>Functional capacity</u>	<u>Total enrolled</u>
Elementary						
Bluffton	K-5	1956	1965/01	Masonry	175	211
Glenside	hdstrt/daycare	1930	1950/52/54/69/01	Masonry	275	-
Marquette	PK-5	1957	1971/75	Masonry	375	436
Moon	PK-5	1921	1962/98	Masonry	300	390
McLaughlin	PK-5	1956	1975	Masonry	300	267
Nelson	PK-5	1929	1958/96	Masonry	300	405
Nims	K-5	1914	1929/63/99	Masonry	589	365
Oakview	PK-5	1959	1997	Masonry	567	447
Phillips	Closed	1946	1949/51/64/97	Masonry	275	-
Middle School						
Bunker	6-8	1921	1930/56/62/98	Masonry	608	611
Steele	6-8	1959		Masonry	652	544
Senior High						
	9-12	1925	1962/76/98	Masonry	1,232	1,533
MTEC	adlt ed/ hdstrt/daycare	1931	1976/96	Masonry	525	360
Craig	Spec. Ed	1967		Masonry	300	50
Froebel	Closed	1930	1970/76	Masonry	657	-
SUBTOTAL						5,619
Adult Ed participants						71
Total Enrollment						5,690

Additional buildings under the jurisdiction of the School District are as follows:

	<u>Year completed/ purchased</u>	<u>Additions</u>	<u>Type of construction</u>
Hackley Administration Building	1889		Masonry
District Services Building	1998		wood/metal
Muskegon Museum of Art	1912	1981	Masonry
Torrent House	1892		Masonry
Hackley Public Library	1888		Masonry

Public Schools of the City of Muskegon
GENERAL ECONOMIC INFORMATION—CONTINUED
Year ended June 30, 2006
(Unaudited)

NON-PUBLIC SCHOOLS

The following parochial schools are located within the Muskegon Public School District:

<u>School</u>	<u>Grades</u>	<u>Approximate enrollment</u>
Catholic Central Junior/Senior High School	7-12	403
Grace Christian	K-6	28
Muskegon Christian Elementary	K-8	234
Broadway Baptist School	K-12	25
St. Michael's Schools	Pre-6	69
		<hr/>
Total		759
		<hr/> <hr/>

Public Schools of the City of Muskegon
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2006

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

November 2, 2006

Board of Education
Public Schools of the City of Muskegon
Muskegon, Michigan

We have audited the financial statements of Public Schools of the City of Muskegon as of and for the year ended June 30, 2006 and have issued our report thereon dated November 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting


In planning and performing our audit, we considered Public Schools of the City of Muskegon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Public Schools of the City of Muskegon's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as Finding 2 in Part B of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Public Schools of the City of Muskegon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described as Finding 1 in Part B of the accompanying Schedule of Findings and Questioned Costs.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 2, 2006

Board of Education
Public Schools of the City of Muskegon
Muskegon, Michigan

Compliance

We have audited the compliance of Public Schools of the City of Muskegon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Public Schools of the City of Muskegon's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Public Schools of the City of Muskegon's management. Our responsibility is to express an opinion on Public Schools of the City of Muskegon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Public Schools of the City of Muskegon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Public Schools of the City of Muskegon's compliance with those requirements.

As described in Finding 1 in Part B of the accompanying Schedule of Findings and Questioned Costs, Public Schools of the City of Muskegon did not comply with requirements regarding the financial reporting compliance requirement that is applicable to the U.S. Department of Education 21st Century Community Learning Centers program. Compliance with such requirements is necessary, in our opinion, for Public Schools of the City of Muskegon to comply with requirements applicable to that program.

Board of Education
November 2, 2006
Page 2

In our opinion, except for noncompliance described in the preceding paragraph, Public Schools of the City of Muskegon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described as Findings 3, 4 and 5 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of Public Schools of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Public Schools of the City of Muskegon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Public Schools of the City of Muskegon as of and for the year ended June 30, 2006 and have issued our report thereon dated November 2, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLLC

Public Schools of the City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Note
					Prior year	Current year	Total		
U.S. Department of Education									
Direct programs									
Indian Education Title IV, Part A	84.060A								
B060A040013		\$ 30,475	\$ 1,345	\$ 1,345	\$ 15,026	\$ -	\$ 15,026	\$ -	
B060A050013		39,137	-	7,103	-	7,352	7,352	249	
		69,612	1,345	8,448	15,026	7,352	22,378	249	
Smaller Learning Communities	84.215L								
S215L022249		328,483	2,451	6,885	324,049	4,434	328,483	-	
Lead 2005 Gear Up	84.334A								
P334A990056-04		175,200	1,951	1,951	138,762	-	138,762	-	
P334A990056-05		30,974	-	30,974	-	30,974	30,974	-	
		206,174	1,951	32,925	138,762	30,974	169,736	-	
Total direct programs		604,269	5,747	48,258	477,837	42,760	520,597	249	
Passed through Michigan Department of Labor and Economic Growth									
Adult Education English Language Civics	84.002A								
0511205500474		25,500	25,500	25,500	25,500	-	25,500	-	
0411205500474		16,000	16,000	16,000	16,000	-	16,000	-	
0511206500475		3,500	-	3,500	-	3,500	3,500	-	
0611206500475		25,500	-	25,500	-	25,500	25,500	-	
		70,500	41,500	70,500	41,500	29,000	70,500	-	
Lead 2007 Gear Up Michigan!	84.334								
801P2001092 2005		137,825	26,293	55,780	108,327	29,487	137,814	-	3
801P2001092 2006		149,985	-	80,351	-	146,477	146,477	66,126	
		287,810	26,293	136,131	108,327	175,964	284,291	66,126	
Total passed through Michigan Department of Labor and Economic Growth		358,310	67,793	206,631	149,827	204,964	354,791	66,126	

Public Schools of the City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Note
					Prior year	Current year	Total		
<i>U.S. Department of Education—Continued</i>									
Passed through Michigan Department of Education									
Title I	84.010								
0415300405		\$ 1,188,732	\$ 190,772	\$ 190,772	\$ 1,188,732	\$ -	\$ 1,188,732	\$ -	
0415500405		54,885	28,466	50,776	32,575	22,310	54,885	-	
0515300405		2,460,473	532,335	532,335	2,460,473	-	2,460,473	-	
0517000405		41,369	5,815	5,815	41,369	-	41,369	-	
0515300506		712,939	-	712,939	-	712,939	712,939	-	
0515500506		75,000	-	37,897	-	62,735	62,735	24,838	
0515200506		3,000	-	1,123	-	1,996	1,996	873	
0615300506		3,134,667	-	2,355,492	-	2,755,848	2,755,848	400,356	
		<u>7,671,065</u>	<u>757,388</u>	<u>3,887,149</u>	<u>3,723,149</u>	<u>3,555,828</u>	<u>7,278,977</u>	<u>426,067</u>	
Title I-Migrant Education	84.011								
0518900405		81,594	12,988	12,988	81,594	-	81,594	-	
0418302005		61,067	11,691	61,067	11,691	49,376	61,067	-	
0618900506		74,442	-	48,550	-	74,442	74,442	25,892	
0618302006		520	-	-	-	520	520	520	
		<u>217,623</u>	<u>24,679</u>	<u>122,605</u>	<u>93,285</u>	<u>124,338</u>	<u>217,623</u>	<u>26,412</u>	
Homeless Children and Youths	84.196								
0523200405		57,748	11,414	11,414	57,748	-	57,748	-	
0523200506-C		7,508	-	7,508	-	7,508	7,508	-	
0623200506		59,106	-	50,500	-	58,743	58,743	8,243	
		<u>124,362</u>	<u>11,414</u>	<u>69,422</u>	<u>57,748</u>	<u>66,251</u>	<u>123,999</u>	<u>8,243</u>	
21st Century Community Learning Centers	84.287								
052110 21ST03-042		255,751	40,709	40,709	255,751	-	255,751	-	
062110 21ST03-042		360,000	-	356,560	-	360,000	360,000	3,440	
		<u>615,751</u>	<u>40,709</u>	<u>397,269</u>	<u>255,751</u>	<u>360,000</u>	<u>615,751</u>	<u>3,440</u>	
Title VI—Innovative Education	84.298								
0402500405		698	698	698	698	-	698	-	
0502500405		53,128	6,781	6,781	53,128	-	53,128	-	
0502500506		2,363	-	2,363	-	2,363	2,363	-	
0602500506		44,926	-	34,851	-	43,449	43,449	8,598	
		<u>101,115</u>	<u>7,479</u>	<u>44,693</u>	<u>53,826</u>	<u>45,812</u>	<u>99,638</u>	<u>8,598</u>	

Public Schools of the City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Note
					Prior year	Current year	Total		
U.S. Department of Education—Continued									
Passed through Michigan Department of Education—Continued									
Technology Literacy Challenge Grants	84.318								
0442900405		\$ 45,014	\$ 158	\$ 158	\$ 45,014	\$ -	\$ 45,014	\$ -	
0542900405		46,822	20,513	20,513	46,822	-	46,822	-	
0542900506		33,690	-	33,690	-	33,690	33,690	-	
0642900506		60,256	-	48,348	-	58,765	58,765	10,417	
		185,782	20,671	102,709	91,836	92,455	184,291	10,417	
Title I—Comprehensive School Reform Demonstration									
0418800506	84.332	56,467	-	56,467	-	56,467	56,467	-	
0418700405		205,946	(7,231)	11,139	187,576	18,370	205,946	-	
0518800506		154,033	-	139,139	-	148,617	148,617	9,478	
0518700506		114,000	-	69,399	-	76,607	76,607	7,208	
		530,446	(7,231)	276,144	187,576	300,061	487,637	16,686	
Reading First State Grants									
042920020302	84.357	95,027	10,866	10,866	95,027	-	95,027	-	
042930020303		375,175	189,668	189,668	375,175	-	375,175	-	
052920020303		115,077	15,333	15,333	104,211	-	104,211	-	
0529300506		1,129,500	-	944,499	-	1,129,500	1,129,500	185,001	
062920050601		103,393	-	91,496	-	116,781	116,781	25,285	
062920020303		114,046	-	92,731	-	112,879	112,879	20,148	
		1,932,218	215,867	1,344,593	574,413	1,359,160	1,933,573	230,434	
English Language Acquisition Grants									
0505800405	84.365	20,522	225	225	20,522	-	20,522	-	
0505800506		19,336	-	19,336	-	19,336	19,336	-	
0605800506		58,779	-	8,787	-	9,126	9,126	339	
		98,637	225	28,348	20,522	28,462	48,984	339	
Title IIA-Improving Teacher Quality									
0405200405	84.367	172,822	75,118	75,118	172,822	-	172,822	-	
0505200405		577,632	129,693	129,693	577,632	-	577,632	-	
0505200506		211,608	-	166,762	-	211,608	211,608	44,846	
0605200506		538,013	-	231,433	-	327,913	327,913	96,480	
		1,500,075	204,811	603,006	750,454	539,521	1,289,975	141,326	
Total passed through Michigan Department of Education		12,977,074	1,276,012	6,875,938	5,808,560	6,471,888	12,280,448	871,962	

Public Schools of the City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Notes
					Prior year	Current year	Total		
U.S. Department of Education—Continued									
Passed through Muskegon Area									
Intermediate School District									
Adult Education Family Literacy	84.002A								
051190-510585		\$ 4,246	\$ 365	\$ 365	\$ 4,246	\$ -	\$ 4,246	\$ -	
061130-610586		49,307	-	49,307	-	49,307	49,307	-	
061190-610586		5,337	-	-	-	5,337	5,337	5,337	
		58,890	365	49,672	4,246	54,644	58,890	5,337	
Special Education Cluster									
I.D.E.A. 101-476	84.027								
Minigrant		1,250	-	1,077	-	1,077	1,077	-	
0504500405		10,000	-	10,000	-	10,000	10,000	-	
0404600304		1,482,480	14,036	14,036	1,482,480	-	1,482,480	-	
504500405		1,482,663	318,920	412,720	1,360,251	122,412	1,482,663	28,612	
604500506		1,450,293	-	1,023,739	-	1,339,697	1,339,697	315,958	
		4,426,686	332,956	1,461,572	2,842,731	1,473,186	4,315,917	344,570	
I.D.E.A. 94-142	84.173								
504600304		65,485	15,301	15,301	65,485	-	65,485	-	
604600506		54,019	-	47,289	-	54,019	54,019	6,730	
		119,504	15,301	62,590	65,485	54,019	119,504	6,730	
Total Special Education Cluster		4,546,190	348,257	1,524,162	2,908,216	1,527,205	4,435,421	351,300	
Drug Free Schools and Communities Act									
0528600405	84.186	60,492	15,190	-	60,492	-	60,492	-	4
0528600405C		26,343	-	26,343	-	26,343	26,343	-	
0628600405		34,149	-	27,571	-	34,149	34,149	6,578	
		120,984	15,190	53,914	60,492	60,492	120,984	6,578	
Total passed through Muskegon Area									
Intermediate School District		4,726,064	363,812	1,627,748	2,972,954	1,642,341	4,615,295	363,215	
Passed through Baker College of Muskegon									
Evenstart	84.213								
050390-C0529CES		225,000	77,565	77,565	220,000	-	220,000	-	
060390 0506		225,000	-	140,079	-	216,137	216,137	76,058	
		450,000	77,565	217,644	220,000	216,137	436,137	76,058	
Total U.S. Department of Education		19,115,717	1,790,929	8,976,219	9,629,178	8,578,090	18,207,268	1,377,610	

Public Schools of the City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Note
					Prior year	Current year	Total		
<i>U.S. Department of Agriculture</i>									
Passed through Michigan Department of Education									
National School Lunch and Breakfast	10.550								
Entitlement commodities		\$ 118,479	\$ -	\$ 118,479	\$ -	\$ 118,479	\$ 118,479	\$ -	
Bonus commodities		9,660	-	9,660	-	9,660	9,660	-	
		<u>128,139</u>	<u>-</u>	<u>128,139</u>	<u>-</u>	<u>128,139</u>	<u>128,139</u>	<u>-</u>	
Child Nutrition Cluster									
051970 Breakfast	10.553	398,889	59,644	101,418	357,115	41,774	398,889	-	
061970 Breakfast		387,039	-	374,105	-	387,039	387,039	12,934	
		<u>785,928</u>	<u>59,644</u>	<u>475,523</u>	<u>357,115</u>	<u>428,813</u>	<u>785,928</u>	<u>12,934</u>	
051950 Lunches	10.555	147,779	20,604	38,255	130,128	17,651	147,779	-	
061950 Lunches		137,859	-	134,259	-	137,859	137,859	3,600	
051960 Free and reduced		1,113,010	154,836	288,453	979,393	133,617	1,113,010	-	
061960 Free and reduced		1,068,127	-	1,040,090	-	1,068,127	1,068,127	28,037	
051980 Snack		5,687	112	127	5,673	15	5,688	-	
061980 Snack		8,178	-	8,178	-	8,178	8,178	-	
		<u>2,480,640</u>	<u>175,552</u>	<u>1,509,362</u>	<u>1,115,194</u>	<u>1,365,447</u>	<u>2,480,641</u>	<u>31,637</u>	
051940 Special Milk	10.556	3,253	441	547	3,147	106	3,253	-	
061940 Special Milk		926	-	926	-	926	926	-	
		<u>4,179</u>	<u>441</u>	<u>1,473</u>	<u>3,147</u>	<u>1,032</u>	<u>4,179</u>	<u>-</u>	
Total Child Nutrition Cluster		3,270,747	235,637	1,986,358	1,475,456	1,795,292	3,270,748	44,571	
Child Care Food									
051920	10.558	11,860	1,511	2,745	10,626	1,234	11,860	-	
061920		11,262	-	11,243	-	11,262	11,262	19	
		<u>23,122</u>	<u>1,511</u>	<u>13,988</u>	<u>10,626</u>	<u>12,496</u>	<u>23,122</u>	<u>19</u>	
Total U.S. Department of Agriculture		3,422,008	237,148	2,128,485	1,486,082	1,935,927	3,422,009	44,590	

Public Schools of the City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Note
					Prior year	Current year	Total		
<i>U.S. Department of Labor</i>									
Passed through County of Muskegon J.T.P.A.	17.250								
Transportation 2005		\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ -	\$ 2,000	\$ -	
Passed through Muskegon Intermediate School District									
WIA Youth Activities	17.259								
27314013/WIA-04/05		80,219	33,947	33,947	52,594	-	52,594	-	
27314013/WIA-05/06		81,365	-	23,303	-	81,365	81,365	58,062	
		<u>161,584</u>	<u>33,947</u>	<u>57,250</u>	<u>52,594</u>	<u>81,365</u>	<u>133,959</u>	<u>58,062</u>	
Total U.S. Department of Labor		163,584	35,947	59,250	54,594	81,365	135,959	58,062	
<i>U.S. Department of Health and Human Services</i>									
Passed through Michigan Family Independence Agency									
Strong Family/Safe Child	93.556								
SFSC 0361005		22,094	(12,512)	-	22,094	-	22,094	-	
SFSC 0261021		40,000	(2,343)	-	37,657	-	37,657	-	
		<u>62,094</u>	<u>(14,855)</u>	<u>-</u>	<u>59,751</u>	<u>-</u>	<u>59,751</u>	<u>-</u>	5
Passed through Michigan Department of Human Services									
Temporary Assistance for Needy Families	93.558								
BA-05-61001 2005		240,970	-	159,861	-	159,861	159,861	-	
BA-05-61001 2006		375,064	-	36,521	-	79,771	79,771	43,250	
		<u>616,034</u>	<u>-</u>	<u>196,382</u>	<u>-</u>	<u>239,632</u>	<u>239,632</u>	<u>43,250</u>	
Passed through Muskegon Area Intermediate School District									
Headstart	93.600								
05CH825807		1,433,590	-	514,793	-	891,255	891,255	376,462	
05CH825806		1,478,744	29,422	637,150	871,016	607,728	1,478,744	-	
Mini-grant		500	-	500	-	500	500	-	
		<u>2,912,834</u>	<u>29,422</u>	<u>1,152,443</u>	<u>871,016</u>	<u>1,499,483</u>	<u>2,370,499</u>	<u>376,462</u>	

Public Schools of the City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Note
					Prior year	Current year	Total		
<i>U.S. Department of Health and Human Services—Continued</i>									
Passed through Muskegon Area									
Intermediate School District—Continued									
Medical Assistance Program Title XIX	93.778								
Transportation		\$ 14,337	\$ -	\$ 14,337	\$ -	\$ 14,337	\$ 14,337	\$ -	
Administration		7,026	-	7,026	-	7,026	7,026	-	
Outreach		49,743	-	49,743	-	49,743	49,743	-	
		71,106	-	71,106	-	71,106	71,106	-	
Total passed through Muskegon Area									
Intermediate School District		2,983,940	29,422	1,223,549	871,016	1,570,589	2,441,605	376,462	
Total U.S. Department of Health and Human Services		3,662,068	14,567	1,419,931	930,767	1,810,221	2,740,988	419,712	
<i>U.S. Department of Homeland Security</i>									
Passed through Michigan State Police									
Homeland Security Grant	97.004								
2003 SHSGP		18,241	-	18,241	-	18,241	18,241	-	
<i>U.S. Department of Defense</i>									
Passed through the Department of the Army									
JROTC MI201592	12.XXX	39,945	3,786	3,786	39,945	-	39,945	-	
JROTC MI201592		46,602	-	42,660	-	46,602	46,602	3,942	
		86,547	3,786	46,446	39,945	46,602	86,547	3,942	
TOTAL FEDERAL ASSISTANCE		\$ 26,468,165	\$ 2,082,377	\$ 12,648,572	\$ 12,140,566	\$ 12,470,446	\$ 24,611,012	\$ 1,903,916	

Public Schools of the City of Muskegon
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Accrued revenue from June 30, 2005 was \$15,992 too low.
4. Accrued revenue from June 30, 2005 was written off due to late request of funds.
5. Funding agency did not require payback of excess receipts.
6. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2006 governmental funds financial statements

General Fund	\$ 10,932,170	
Other governmental funds (includes Food Service Fund)	<u>1,935,925</u>	\$ 12,868,095

Plus: Drug Free Schools disallowed prior year accrued receivable	15,190
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Less: Prior year accrued revenues recorded on the financial statements as they provide financial resources	(42,583)
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Medicaid Administration revenues included as federal revenue in the general purpose financial statements	(370,260)
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Rounding and immaterial differences	<u>4</u>
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Expenditures per single audit report	
Schedule of Expenditures of Federal Awards	<u><u>\$ 12,470,446</u></u>

Public Schools of the City of Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Public Schools of the City of Muskegon.
2. **One (1)** reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This reportable condition is not reported as a material weakness.
3. **One (1)** instance of noncompliance material to the financial statements of Public Schools of the City of Muskegon was disclosed during the audit and is reported in Part B of this schedule.
4. There were **no** reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Part C of this schedule.
5. The auditors' report on compliance for the major federal award programs for Public Schools of the City of Muskegon expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i>	
Title I	84.010
Drug Free Schools and Communities Act	84.186
21st Century Community Learning Centers	84.287
Title IIA - Improving Teacher Quality	84.367
<i>U.S. Department of Health and Human Services</i>	
Temporary Assistance for Needy Families	93.558
Head Start	93.600

8. The threshold for distinguishing Types A and B programs was \$374,113.
9. Public Schools of the City of Muskegon was not determined to be a low-risk auditee.

Public Schools of the City of Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2006

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

U.S. Department of Education

Fiscal 2006 Finding No. 1: 21st Century Community Learning Centers

Pass-through entity: Michigan Department of Education

CFDA: 84.287

Award Numbers: 062110/21st 03042

Award Year End: June 30, 2006

Specific Requirement: Financial Reporting

Criteria: Changes in program budgets between functions are allowed without approval from Michigan Department of Education (MDE) as long as the change is not greater than 10 percent within each function. Any changes greater than 10 percent require a budget amendment to be submitted to MDE through MEGS reporting system for approval.

Condition: The grant was overexpended by function, but not in total. MDE Form DS 4044 "Grants Final Expenditure Report" reported four functions were overexpended, with two functions greater than 10 percent, by an aggregate of \$149,661.

Questioned Costs: \$149,661

Context: There were two budget lines within the budget of ten line items that exceeded the criteria.

Effect: Noncompliance could result in the repayment of excess expenditures and/or the loss of federal funding.

Recommendation: All program award budgets and amendments should be submitted to the Business Office for review before submission to grant agencies.

School District Response: All invoices and billings that are submitted to the funding sources will continue to be prepared by the finance office with the assistance of the grant coordinator, the grant finance staffer and representatives of the School District's finance office in attendance to ensure that the approved grant budgets that are input into the funder's electronic databases remain consistent with the grant budget that is input into the School District's AS400. That should ensure that any necessary amendments to line items would be effected with both the School District's finance office and the funding source.

REPORTABLE CONDITIONS

Fiscal 2006 Finding No. 2: Petty Cash Procedures

Condition: During a review of petty cash expenditures at one elementary school, we noted that petty cash disbursements were not properly documented as to business purpose and other information. We also noted that petty cash fund reimbursements were not made in amounts equal to expenditures being reimbursed.

Effect: Errors or the misappropriation of funds could occur and not be detected.

Recommendation: Internal control procedures for petty cash accounts should be strengthened.

Questioned Costs: None

School District Response: Staff handling the petty cash function will be trained on the documentation necessary to be obtained for transactions and will be informed that all reimbursements must agree to the amount of the documentation.

Public Schools of the City of Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2006

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

COMPLIANCE

U.S. Department of Health and Human Services

Fiscal 2006 Finding No. 3: Temporary Assistance for Needy Families

Pass-through entity: Michigan Department of Education

CFDA: 93.558

Award Number: BA-05-61001

Award Year End: September 30, 2005

Specific Requirement: Allowable Cost/Cost Principles

Criteria: The grant contract requires that expenditures in excess of 5 percent of budget line items must be amended.

Condition: Although the grant was not overexpended in total, the grant was overexpended by budget line.

Questioned Costs: \$12,716

Context: There was one budget line within the budget of seven line items that exceeded the criteria.

Effect: Expenditures in excess of budget line could be denied reimbursement.

Recommendation: Federal program expenditures by budget line should be monitored closely for budget compliance and for budget lines requiring amendment.

School District Response: All invoices and billings that are submitted to the funding sources will continue to be prepared by the finance office with the assistance of the grant coordinator, the grant finance staffer and representatives of the School District's finance office in attendance to ensure that the approved grant budgets that are input into the funder's electronic databases remain consistent with the grant budget that is input into the School District's AS400. That should ensure that any necessary amendments to line items would be effected with both the School District's finance office and the funding source.

Public Schools of the City of Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2006

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT—Continued

COMPLIANCE—Continued

U.S. Department of Education

Fiscal 2006 Finding No. 4: Title I

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Number: 0615300506

Award Year End: September 30, 2006

Specific Requirement: Special Tests and Provisions for Schoolwide Plans

Criteria: Transition plans for assisting preschool children in the successful transition to the schoolwide program are required (34CFR section 200.28(3)).

Condition: None of the schoolwide plans had the required component of such transition plans.

Questioned Costs: Noncompliance could result in the loss of program funding.

Context: The School District's template used in developing schoolwide plans was missing this one component.

Effect: Without transition plans in place, preschool children may not have adequate assistance to make a successful transition to the schoolwide program when they progress to elementary school.

Recommendation: Title I schoolwide plans should be reviewed by program administrators for completeness of all required components.

School District Response: We are aware of this issue and corrective action has been added to the plan for the 06/07 school year.

Public Schools of the City of Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2006

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT—
Continued

COMPLIANCE—Continued

U.S. Department of Health and Human Services

Fiscal 2006 Finding No. 5: Temporary Assistance for Needy Families

Pass-through entity: Michigan Department of Education

CFDA: 93.558

Award Number: BA-05-61001

Award Year End: September 30, 2006

Specific Requirement: Financial Reporting

Criteria: The Michigan Department of Human Services grant agreement requires within thirty (30) days of the end of each quarter, quarterly reports which shall describe:

- The number of unduplicated children and youth participants, as well as parents seen monthly
- Updates on implementation activity
- Parental involvement in the project
- Barriers to service delivery and outcomes
- Progress towards outcomes

The grant agreement also requires a summary report that outlines the activities, challenges and outcomes for the year, which can be incorporated into the final quarterly report.

Condition: We noted that only the final quarterly report was filed with the Michigan Department of Human Services. Quarterly reports for the quarters ended September 30, 2005, December 31, 2005 and March 31, 2006 were not filed. The final quarterly report did not identify the number of unduplicated children and youth participants, nor did it disclose the number of parents seen monthly.

Questioned Costs: Not determinable

Context: There were 5 issues in relation to 4 reports required to be filed. Three (3) required reports were not filed and two (2) disclosures were missing in the final report.

Effect: By not complying with grant requirements, the School District could lose funding.

Recommendation: Program personnel should comply with program reporting requirements.

School District Response: The finance office will request from the Executive Director of Community Services that copies of the quarterly reports be submitted to the Finance office for review to ensure that required reports are both complete and timely filed.

REPORTABLE CONDITIONS

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

November 2, 2006

Michigan Department of Education
Lansing, Michigan

Public Schools of the City of Muskegon respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2005 dated October 4, 2005.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

REPORTABLE CONDITIONS

Fiscal 2005 Finding No. 1: Authorized Use of School District's Federal Identification Number

Condition: We noted organizations affiliated with the School District are using the School District's federal identification number on bank accounts.

Recommendation: Only School District bank accounts should utilize the School District's federal identification number.

Current Status: The recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

Fiscal 2005 Finding No. 2: Athletic Gate Receipt Procedures

Condition: During our review of internal controls, we noted that control procedures do not enable reconciliation of attendees with cash receipts.

Recommendation: Control procedures surrounding middle school athletic event gate receipts should be improved.

Current Status: The recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS—Continued

Fiscal 2005 Finding No. 3: Building Agency Funds Procedures

Condition: During our review of internal controls, we noted a lack of specific policies and procedures to be performed in relation to cash receipts, deposits and cash disbursements.

Recommendation: The internal controls surrounding the agency funds at all buildings should be strengthened.

Current Status: The recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

Fiscal 2005 Finding No. 4: Federal Award Program Budget Procedures

Condition: During our audit testing, we noted instances in which the original or amended program award budgets were submitted to the granting agencies without being forwarded to the Business Office.

Recommendation: All program award budgets should be submitted to the Business Office for review before submission to grant agencies.

Current Status: See Fiscal 2006 Findings 1 and 3 for similar findings noted during the single audit for the year ended June 30, 2006.

Fiscal 2005 Finding No. 5: Title I Compliance Procedures

Condition: During our single audit compliance tests of the Title I program, we noted findings in relation to the compliance requirements of student transfer options, documentation of employee time and effort and documentation of per pupil allocation for private school children. See Findings 6-9 in Part C below.

Recommendation: The School District should improve its compliance with federal Title I compliance requirements.

Current Status: The recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Education

**Fiscal 2005 Finding No. 6: Identifying Schools Needing Improvement
Title I, Part A
CFDA: 84.010
Award Number: 0515300405
Award Year End: September 30, 2005**

Condition: During our compliance tests for the Special Tests and Provisions of identifying schools needing improvement, we noted that the School District did not contact neighboring school districts about the possibility of middle school students transferring from the School District to a neighboring school district's middle school under the Student Transfer Option.

Recommendation: The School District should contact neighboring school districts to determine if students would be accepted if they wanted to transfer from the School District's middle school. If another school district is willing to accept those students, the School District must inform the parents of those students and provide the transportation of those students who elect to transfer.

Current Status: The recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

U.S. Department of Education

**Fiscal 2005 Finding No. 7: Identifying Schools Needing Improvement
Title I, Part A
CFDA: 84.010
Award Number: 0515300405
Award Year End: September 30, 2005**

Condition: During our compliance tests for the Special Tests and Provisions of identifying schools needing improvement, we noted that the School District did not provide adequate parental notification letters for students attending schools identified for improvement.

Recommendation: The School District should promptly notify the parents of each student enrolled in a school identified for improvement (1) the option of transfer to another school by identifying the available schools' information about the academic achievement of each school in comparison to the student's current school and (2) the offer to provide or pay for transportation for those students electing to transfer.

Current Status: The recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

COMPLIANCE—Continued

U.S. Department of Education

**Fiscal 2005 Finding No. 8: Documentation of Employee Time and Effort
Title I, Part A**

CFDA: 84.010

Award Number: 0415300304, and 0415300405 and 515300405

Award Year Ends: September 30, 2004, June 30, 2005 and
September 30, 2005

Condition: During our compliance tests for Allowable Costs/Cost Principles, we noted certain employees did not have semi-annual certifications or maintain time and effort distribution records in accordance with OMB Circular A-87.

Recommendation: The School District should require all employees, who fall under the OMB Circular A-87 requirements for documenting time charged to and/or used for matching in federal award programs, to prepare the required documentation.

Current Status: The recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

U.S. Department of Education

**Fiscal 2005 Finding No. 9: Documentation of Per Pupil Allocation for Private School Children
Title I, Part A**

CFDA: 84.010

Award Number: 515300405

Award Year End: September 30, 2005

Condition: During our compliance tests for Participation of Private School Children, we noted that the School District does not perform a calculation to verify that the per pupil allocation (PPA) to private schools is equal to the PPA generated by public school children from low-income families living in the same attendance areas.

Recommendation: The School District should verify that the PPA to private schools is equal to the PPA generated by public school children from low-income families living in the same attendance areas.

Current Status: The recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

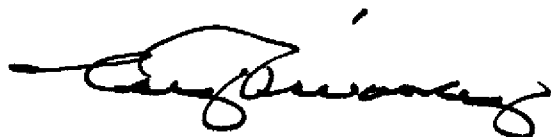
Michigan Department of Education
November 2, 2006
Page 5

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

REPORTABLE CONDITIONS

See Finding No. 5 in Part B above.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Privasky", with a long horizontal line extending to the left.

Gary Privasky
Executive Director of Administrative Service

CORRECTIVE ACTION PLAN

November 2, 2006

Michigan Department of Education
Lansing, Michigan

Public Schools of the City of Muskegon respectfully submits the following Corrective Action Plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2006

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

U.S. Department of Education

Fiscal 2006 Finding No. 1: 21st Century Community Learning Centers
Pass-through entity: Michigan Department of Education
CFDA: 84.287
Award Numbers: 062110/21st 03042
Award Year End: June 30, 2006

Recommendation: All program award budgets and amendments should be submitted to the Business Office for review before submission to grant agencies.

Action Taken: All invoices and billings that are submitted to the funding sources will continue to be prepared by the finance office with the assistance of the grant coordinator, the grant finance staffer and representatives of the School District's finance office in attendance to ensure that the approved grant budgets that are input into the funder's electronic databases remain consistent with the grant budget that is input into the School District's AS400. That should ensure that any necessary amendments to line items would be effected with both the School District's finance office and the funding source.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS

Fiscal 2006 Finding No. 2: Petty Cash Procedures

Recommendation: Internal control procedures for petty cash accounts should be strengthened.

Action Taken: Staff handling the petty cash function will be trained on the documentation necessary to be obtained for transactions and will be informed that all reimbursements must agree to the amount of the documentation.

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Health and Human Services

Fiscal 2006 Finding No. 3: Temporary Assistance for Needy Families

Pass-through entity: Michigan Department of Education

CFDA: 93.558

Award Number: BA-05-61001

Award Year End: September 30, 2005

Specific Requirement: Allowable Cost/Cost Principles

Recommendation: Federal program expenditures by budget line should be monitored closely for budget compliance and for budget lines requiring amendment.

School District Response: All invoices and billings that are submitted to the funding sources will continue to be prepared by the finance office with the assistance of the grant coordinator, the grant finance staffer and representatives of the School District's finance office in attendance to ensure that the approved grant budgets that are input into the funder's electronic databases remain consistent with the grant budget that is input into the School District's AS400. That should ensure that any necessary amendments to line items would be effected with both the School District's finance office and the funding source.

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT—
Continued**

COMPLIANCE—Continued

U.S. Department of Education

Fiscal 2006 Finding No. 4: Title I

Pass-through entity: Michigan Department of Education
CFDA: 84.010
Award Number: 0615300506
Award Year End: September 30, 2006

Specific Requirement: Special Tests and Provisions for Schoolwide Plans

Recommendation: Title I schoolwide plans should be reviewed by program administrators for completeness of all required components.

School District Response: We are aware of this issue and corrective action has been added to the plan for the 06/07 school year.

U.S. Department of Health and Human Services

Fiscal 2006 Finding No. 5: Temporary Assistance for Needy Families

Pass-through entity: Michigan Department of Education
CFDA: 93.558
Award Number: BA-05-61001
Award Year End: September 30, 2006

Specific Requirement: Financial Reporting

Recommendation: Program personnel should comply with program reporting requirements.

School District Response: The finance office will request from the Executive Director of Community Services that copies of the quarterly reports be submitted to the Finance office for review to ensure that required reports are both complete and timely filed.

Michigan Department of Education

November 2, 2006

Page 4

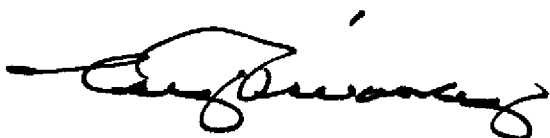
C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

REPORTABLE CONDITIONS

There were *no* reportable conditions in relation to major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Gary Privasky at (231) 720-2018.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Privasky", with a long horizontal line extending to the left.

Gary Privasky
Executive Director of Administrative Service

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

November 2, 2006

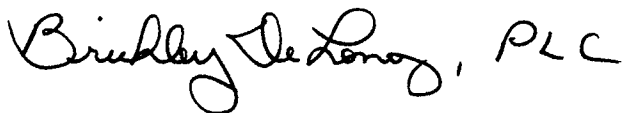
Board of Education
Public Schools of the City of Muskegon
Muskegon, Michigan

In planning and performing our audit of the financial statements of Public Schools of the City of Muskegon for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Public Schools of the City of Muskegon's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is not believed to be a material weakness.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

REPORTABLE CONDITIONS

Recommendation 1: Internal control procedures for petty cash accounts should be strengthened.

During our review of a petty cash account at one of the elementary buildings, we noted that petty cash disbursements were not properly documented with the business purpose of the transaction and other related information in addition to copies of receipts. In addition, reimbursements were made for amounts other than the amount of the transaction due to inadequate change in the petty cash fund.